The Great Banking Reset: How Risk, Regulation, and Technology Are Reshaping U.S. Banking in 2026

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The U.S. banking system of 2026 looks very different from the one that confronted policymakers and financial markets during the regional-bank turmoil of 2023. Another crisis of the same kind does not appear imminent. Instead, the industry has entered a more complicated period in which familiar banking risks coexist with the rapid growth of private credit, nonbank financial institutions, artificial intelligence, digital payments, cybersecurity threats, and deeply interconnected markets.

That distinction matters. The events of 2023 showed that a bank could appear adequately capitalized and still become vulnerable to a sudden collapse in confidence. The failures of Silicon Valley Bank, Signature Bank, and First Republic revealed how interest-rate exposure, concentrated deposits, unrealized securities losses, liquidity pressure, and depositor behavior could reinforce one another with extraordinary speed. The Federal Reserve later identified weak interest-rate and liquidity risk management, concentrated business models, and heavy reliance on uninsured deposits as major vulnerabilities at Silicon Valley Bank (Board of Governors of the Federal Reserve System [Federal Reserve], 2023a, 2023b).

Many of those vulnerabilities have since been reduced. The financial system has not become risk-free, though. Risk has changed location, structure, and form. The channels through which financial pressure can spread have changed as well.

That is the essence of the Great Banking Reset.

From the 2023 Shock to a Different Financial System

The banking turmoil of 2023 exposed a weakness in traditional approaches to financial stability. Capital was essential, but it was not enough. Liquidity could disappear rapidly. Depositors could move billions of dollars electronically within hours. Securities considered safe from a credit perspective could produce substantial market-value losses when interest rates rose. Weak governance and poor risk management could then turn a manageable balance-sheet problem into a crisis of confidence.

The Federal Reserve's review of Silicon Valley Bank found that the institution grew from approximately $71 billion in assets in 2019 to more than $211 billion in 2021, even as serious weaknesses in governance, liquidity, and interest-rate risk management remained unresolved. When confidence deteriorated in March 2023, deposit outflows accelerated. Customers withdrew more than $40 billion on March 9 alone, and management expected requests for another $100 billion the following day (Federal Reserve, 2023b).

The lesson was not simply that banks needed more capital. It was that capital, liquidity, funding structure, asset duration, depositor behavior, governance, and market confidence had to be understood as parts of the same system.

Three years later, the industry has regained considerable operating momentum. FDIC-insured institutions generated $80.5 billion in net income during the first quarter of 2026, an increase of 14.3% from the same quarter a year earlier. The industry's return on assets rose to 1.26%, loan balances increased 7.1% year over year, and domestic deposits grew for the seventh consecutive quarter (Federal Deposit Insurance Corporation [FDIC], 2026a).

Those figures do not describe an industry in retreat. Banks are profitable, deposits have stabilized, and credit is expanding. Yet the recovery comes with an important qualification. The industry's net interest margin declined eight basis points to 3.31% during the first quarter because yields on earning assets fell faster than funding costs (FDIC, 2026a).

The result is a more nuanced picture. Banks are profitable and extending credit, but their earnings remain sensitive to loan yields, funding costs, credit quality, and interest rates. The system may be stronger, but it is not immune to pressure.

Credit Is Expanding Again

One of the clearest changes in 2026 is the renewed growth of bank lending. The Federal Reserve's H.8 data indicate that bank credit was growing at an annual rate of approximately 5.5% in the latest available period, while loans and leases were growing at roughly 3.8%. Commercial and industrial lending grew more quickly earlier in the year before moderating, while real-estate lending continued to expand at a steadier pace (Federal Reserve, 2026a).

This matters because banks are not responding to uncertainty by broadly withdrawing from credit markets. They are lending.

The central question has therefore changed. It is no longer enough to ask whether banks are willing to extend credit. The more useful questions are where that credit is going, what risks banks are assuming, and whether borrowers could withstand weaker economic conditions.

Credit growth can support the economy and strengthen bank earnings. It can also create future losses if underwriting standards weaken or borrowers become overstretched. The quality of new lending matters at least as much as its volume.

This is one of the defining features of banking in 2026: the system is stronger, but risk analysis must become more granular.

Commercial Real Estate and the Refinancing Problem

Commercial real estate remains one of the most closely watched areas of bank credit risk. The FDIC's *2026 Risk Review* reports that bank CRE portfolios grew modestly in 2025 and that aggregate delinquency and charge-off ratios remained low. Conditions vary widely across institutions and property types, though. Elevated interest rates, operating costs, and vacancy rates continue to make refinancing and repayment more difficult for some borrowers (FDIC, 2026b).

Office properties deserve particular attention. The national office vacancy rate reached 14.0% at the end of 2025, although the pace of deterioration had slowed. At the same time, growth in net operating income was weakening as vacancies remained high, rent growth moderated, and operating expenses stayed elevated (FDIC, 2026b).

These trends have an important implication for bank risk analysis: CRE problems often begin before a borrower misses a payment. They begin when property cash flow no longer provides a comfortable margin over debt service.

Consider a property that generates $1 million in annual net operating income and requires $750,000 in annual debt service. Its debt-service coverage ratio is approximately 1.33. If refinancing raises annual debt service to $900,000 while net operating income remains unchanged, the ratio falls to roughly 1.11. The property has not suffered a decline in operating income, but the borrower's financial cushion has nearly disappeared.

CRE risk in 2026 is therefore best understood as a refinancing and cash-flow problem, not merely a delinquency problem. A property can continue making payments today and still face material risk when its loan matures.

Why Bank-Level Analysis Matters

National averages can hide substantial differences among individual institutions. Bank of America, for example, reported approximately $71.1 billion in commercial real-estate loans as of June 30, 2026. Its CRE portfolio was diversified across regions and property types. Office loans declined 8% from year-end 2025 and represented less than 1% of total

corporate loans, while approximately $3.2 billion in office loans were scheduled to mature by the end of 2026 (Bank of America Corporation, 2026).

That profile shows why the same economic shock can produce very different outcomes across banks. An institution with concentrated office exposure, weak borrower cash flows, and limited capital flexibility faces a different level of risk from a diversified bank with stronger underwriting, liquidity, capital, and risk-management systems.

The principle applies well beyond commercial real estate. Consumer lending, corporate credit, securities holdings, deposit composition, wholesale funding, and exposure to nonbank financial institutions can create distinct combinations of vulnerability.

The banking reset requires a more precise question than “How is the banking system doing?” Analysts must instead ask which institutions are exposed, what kinds of risk they hold, and how those risks could move through their balance sheets.

Large Banks Enter 2026 With Significant Buffers

The condition of the largest U.S. banks provides an important counterpoint to vulnerabilities elsewhere in the system. JPMorgan Chase reported $16.5 billion in net income for the first quarter of 2026, a 19% return on equity, and a standardized common equity tier 1 ratio of 14.3%. It also reported approximately $1.5 trillion in cash and marketable securities, $1.5 trillion in average loans, and total loss-absorbing capacity of roughly $572 billion (JPMorgan Chase & Co., 2026).

These figures show the value of scale, diversification, capital, and liquidity. They also reveal a paradox at the center of modern banking. The largest banks may be among the most resilient institutions when considered individually, yet they are also among the most interconnected institutions in the financial system.

Institutional strength does not eliminate systemic risk. It changes where that risk is likely to emerge and how it may spread.

The Bigger Story May Be Outside Banking

Perhaps the most important difference between 2023 and 2026 is the growing role of nonbank finance. Private credit has expanded rapidly over the past decade. The Federal Reserve estimates that private-credit loans reached approximately $1.4 trillion in the second half of 2025. That amount represented about 10% of the debt owed by U.S. nonfinancial corporations and approximately one-third of below-investment-grade corporate debt when bank loans were excluded (Federal Reserve, 2026b).

Banks remain closely connected to that market. The Federal Reserve reported that bank loan commitments to private-equity firms, business development companies, and private-credit vehicles represented approximately 25% of bank commitments to nonbank financial institutions after a substantial revision to the way those exposures were classified. Commitments to this group increased about 17% during 2025, compared with 14% growth in commitments to nonbank financial institutions overall (Federal Reserve, 2026c).

Private credit may operate outside the traditional bank-regulatory structure, but it does not operate outside the financial system. Banks are connected to private-credit markets through lending commitments, subscription lines, financing arrangements, derivatives, custody, payment services, and other commercial relationships.

Risk can migrate beyond the banking sector without disappearing. It may simply become harder to observe.

The Federal Reserve's September 2026 Financial Accounts release illustrates the scale of this shift. Corporate debt reached approximately $15.7 trillion in the second quarter of 2026. Private-credit loans accounted for 7.1% of that debt, nearly equal to the share represented by nonmortgage loans from depository institutions (Federal Reserve, 2026d).

The financial system is becoming less centered on banks. That does not make banks less important. It makes the connections between banks and nonbanks more consequential.

Correlation Is the New Systemic Risk

The most serious threat in 2026 may not be any one vulnerability. It may be the correlation among several vulnerabilities.

Commercial real-estate refinancing pressure, consumer-credit deterioration, net-interest-margin compression, unrealized securities losses, deposit outflows, reliance on wholesale funding, bank commitments to nonbank financial institutions, and liquidity stress in private-credit vehicles may each appear manageable in isolation. The danger increases when several occur at the same time.

A credit problem can reduce earnings and capital. Weaker capital can undermine market confidence. A loss of confidence can accelerate deposit withdrawals, which can increase liquidity needs. A bank may then have to sell assets or obtain more expensive funding, placing additional pressure on earnings. That pressure can weaken confidence even more.

The events of 2023 demonstrated how quickly such a feedback loop can form. In 2026, the transmission network is broader because banks are more closely connected to private-

credit funds, asset managers, insurers, fintech companies, payment systems, and other financial intermediaries.

Systemic risk must therefore be understood as a function of credit, liquidity, funding, market, nonbank, and operational risks. These variables cannot be evaluated independently because their interactions often determine the severity of an event.

Regulation Is Expanding the Meaning of Resilience

The post-2023 environment has also changed how regulators and bank executives think about resilience. Capital and liquidity remain fundamental, but they are no longer sufficient as stand-alone measures of institutional strength.

Banks must now account for operational resilience, cybersecurity, third-party dependencies, model risk, data governance, artificial intelligence, technology infrastructure, and geopolitical exposure. These risks can affect a bank's ability to operate even when its balance sheet appears sound.

The Federal Reserve's 2026 assessment of funding risks reflects this broader view. Funding vulnerabilities remained moderate for most banks, uninsured deposits were well below the elevated levels seen in 2023, and large institutions continued to hold substantial amounts of high-quality liquid assets. The Federal Reserve also identified increased redemption requests at certain private-credit vehicles and continued bank lending to private-credit funds and business development companies (Federal Reserve, 2026e).

The regulatory question is no longer limited to whether an institution holds enough capital. Regulators must also determine whether it can continue operating, obtain funding, protect customers, govern its models, and maintain confidence during rapidly changing conditions.

Artificial Intelligence Is Changing the Banking Model

Artificial intelligence is another major part of the reset. Banks are moving beyond small experiments and integrating AI into fraud detection, credit analysis, customer service, compliance, transaction surveillance, and risk management.

The benefits could be substantial. AI can process large volumes of data, identify patterns that conventional systems may miss, automate routine work, and help institutions respond more quickly to changing risks. Yet it also introduces new concerns involving model accuracy, explainability, bias, data quality, cybersecurity, validation, and human accountability.

A model may perform well statistically and still create unacceptable governance or operational risks. If a bank cannot explain a credit decision, identify flawed data, monitor changes in model behavior, or determine who is responsible for an outcome, better predictive performance may not translate into safer banking.

The important question is not simply whether AI can improve banking. It is whether banks can use it without weakening accountability, governance, and trust.

The Federal Reserve's decision to incorporate private-credit vehicles into the Financial Accounts reflects a related principle. Its 2026 release added private debt funds, business development companies, interval and tender-offer funds, and middle-market collateralized loan obligations to the framework used to measure financial-sector activity (Federal Reserve, 2026f). As finance becomes more complex, better data and broader visibility become prerequisites for effective risk management.

Cybersecurity Is Financial Risk

The digitalization of banking has also transformed cybersecurity from an information-technology concern into a core financial risk. A major cyberattack can interrupt payments, block customer access, disrupt operations, create liquidity pressure, expose sensitive data, produce legal liabilities, and damage confidence in an institution.

Third-party infrastructure makes this challenge more difficult. Cloud providers, payment processors, software vendors, data platforms, cybersecurity firms, and fintech partners now perform critical functions throughout the banking system. A bank may be financially sound while still remaining exposed to an operational failure somewhere in its technology supply chain.

Enterprise risk management must reflect that reality. Resilience now depends on an institution's ability to prevent attacks, detect intrusions, respond effectively, recover critical services, and learn from each incident.

Competition Is Shifting Toward Digital Money

Competition in banking is expanding beyond deposits and loans. Digital banks, fintech lenders, payment platforms, embedded-finance providers, and other technology-based businesses increasingly compete with traditional institutions for customer relationships and transaction activity.

Stablecoins and tokenized payment infrastructure add another dimension. The Federal Reserve reported that stablecoin growth had moderated in recent months, but the

development of digital money remains relevant to the future of payments and market infrastructure (Federal Reserve, 2026e).

Banks must now decide whether they will own new financial infrastructure, connect to it, or risk being displaced by it. The answer will depend not only on technology but also on regulation, trust, security, cost, convenience, and the ability to integrate new capabilities into established risk-management systems.

Five Priorities for the Banking Reset

The emerging financial system points to five strategic priorities.

First, banks must integrate enterprise risk management. Credit, liquidity, market, cyber, geopolitical, technology, climate, and third-party risks should not be assessed in separate silos when they can amplify one another.

Second, institutions need responsible AI governance. Model validation, explainability, data quality, accountability, and meaningful human oversight must accompany wider use of automated systems.

Third, banks must modernize their core infrastructure. Cloud services, application programming interfaces, automation, modular architecture, and real-time analytics are becoming essential to both resilience and competitiveness.

Fourth, institutions need stronger digital-payment capabilities. Real-time payments, tokenized assets, and digital-money infrastructure are no longer peripheral experiments. They are becoming strategic parts of financial services.

Fifth, banks must treat trust as a competitive asset. Security, transparency, reliability, and institutional stability matter as much to customers as speed and convenience.

The future bank will not be defined by its balance sheet alone. It will be defined by the quality of its balance sheet, data, technology, governance, infrastructure, and relationships across the wider financial system.

What Should Financial Leaders Watch in 2026?

A useful banking-risk dashboard must extend beyond capital ratios. Deposit growth and outflows can reveal changes in funding stability, while unrealized securities losses provide insight into interest-rate and duration exposure. Net interest margin shows how funding costs and asset yields are affecting earnings. Commercial real-estate maturities, property cash flows, and debt-service coverage ratios help identify refinancing risk before it appears in delinquency data.

Nonperforming loans and charge-offs remain important measures of credit deterioration. CET1 capital indicates the ability to absorb losses, while liquidity measures reveal how well an institution could withstand near-term pressure. Reliance on wholesale funding can expose a bank to changing market conditions, and commitments to nonbank financial institutions may reveal channels through which stress could pass from one part of the system to another. Private-credit defaults, redemption requests, and liquidity conditions deserve similar attention because problems outside traditional banking can still affect banks and financial markets.

The objective is not to predict the exact timing or form of the next crisis. It is to identify where pressure is accumulating before that pressure becomes systemic.

The Banking Reset Is Bigger Than Banking

The U.S. banking system in 2026 is stronger than it was during the regional-bank turmoil of 2023. Profitability is solid, deposits have stabilized, lending is expanding, and the largest institutions maintain substantial capital and liquidity buffers (FDIC, 2026a; JPMorgan Chase & Co., 2026).

Stronger banks do not necessarily create a simpler financial system. The architecture of finance has become more interconnected, and credit is increasingly supplied by private-credit funds, business development companies, asset managers, insurers, and other nonbank institutions. Technology is embedded in underwriting, payments, compliance, customer service, and risk management. AI is changing financial analysis. Digital infrastructure is changing how money moves. Cybersecurity and third-party dependencies now have direct implications for financial stability.

For that reason, 2026 should not be viewed merely as a recovery from the banking turmoil of 2023. The events of 2023 warned of the fragility created by balance-sheet risk, weak liquidity management, and a sudden loss of confidence. The conditions of 2026 warn of something broader: the complexity of a financial system in which risks are spread across institutions, markets, funds, technology platforms, and payment infrastructure.

The Great Banking Reset is not a return to the system that existed before 2023. It is an adjustment to a new structure in which risk is more distributed, financial relationships are more complex, and disruption can travel through both traditional and digital channels.

The central question is no longer simply whether U.S. banks are safe. The more important questions are where risk is accumulating, who is holding it, and through which channels it could move across the financial system.

Those questions will define banking resilience in the years ahead.

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