Famous Last Words on S.2155

Bankers, lobbyists, elected officials uttered some choice words on 2018's bank deregulation legislation and the impact of mid-sized banks on financial stability that belong in any good collection of famous last words.

The words of **Bob Jones**, the former chairman of the Mid-Sized Bank Coalition, have a different ring to them this year than they did when he uttered them in 2018. "Mid-size banks do not present *even a marginal systemic risk,*" he said at the time. Silicon Valley Bank CEO **Greg Becker** didn't equivocate either. "SVB, like our mid-sized bank peers, *does not present systemic risks*," he insisted. Then there's Signature Bank chairman **Scott Shay**. "We strongly believe that *we are not even in the same zip code* as being systemically important," he asserted.

On March 12, federal regulators cited dangerous systemic risk as their reason for closing both of those banks and invoking their authority to guarantee deposits.

Some of these men will appear this week before lawmakers to answer questions about the collapse of their banks. So, it's worth reviewing the many self-interested statements around S.2155, the 2018 legislation that eased supervision in the $50-$250 billion range into which these banks fit. Bankers, lobbyists, and elected officials said things that – as AFR and others warned early in the process – were willfully blind to the risks the legislation created. Bankers, who pumped money into the political process to win the day, either obscured the main issue at hand or brushed off worries about financial stability and too many elected officials did the same.

One Senate supporter of Wall Street insisted, back in 2018, that the deregulation of large regional banks like SVB and Signature should have extended to giants like JPMorgan Chase, Citigroup, and Bank of America.

The Bank Lobby

Rob Nichols, president of the American Bankers Association flatly stated: "These asset thresholds have *no rational connection to systemic risk.*" The Financial Services Roundtable (now the **Bank Policy Institute**, which represents large banks) criticized "arbitrary asset thresholds" on the same grounds.

The marquee provision of S. 2155 eased supervision for mid-sized (but still very large) banks, a fact conveniently ignored by backers who flatly dismissed issues of financial stability. “This relief is targeted at community banks and selected for its potential for creating maximum economic growth while *safeguarding … safety and soundness*,” said **Camden Fine**, head of the Independent Community Bankers of America. Sen. **Angus King** rationalized his vote on the grounds that it ”provides targeted and much-needed regulatory relief for small banks and credit unions *without decreasing the safety and soundness* of our financial system.”

Lawmakers

Sen. **Mike Crapo**, the primary sponsor of S.2155, insisted the bill would make only “targeted changes” to enhanced supervision, even though the legislation says that all banks in the $100-250 billion category were “presumed exempt” from it. And he argued that “right-sizing and simplifying regulations for regional banks” would not harm financial stability. Sen. **Mike Rounds** insisted S.2155 “will strengthen our financial system.” Former Sen. **Heidi Heitkamp**, an original co-sponsor, called it “absurd” for critics of S.2155 “to suggest that we are in fact risking the financial security of this country, of our institutions.”

In the House, 29 members – including Rep. **Patrick McHenry**, now the chair of the House Financial Services Committee, leaned on statements by Fed chair Jerome Powell about the draft legislation: “Chairman Powell stated that financial institutions with less than $250 billion in assets generally do not present a systemic risk to the economy, and we agree with that view.”

Globally systemically important institutions like JPMorgan Chase, Citigroup, Goldman Sachs, Wells Fargo, and Bank of America receive the highest level of scrutiny from regulators under the 2010 Dodd-Frank law, the treatment appropriate for the “too-big-to-fail” (TBTF) megabanks. But throughout the debate on S.2155, supporters repeatedly insisted, falsely, that banks with $100-$250 billion in assets also received this treatment – and needed relief.

The bill, Sen. **Thom Tillis** insisted, aimed to “provide relief for smaller financial institutions from Dodd-Frank regulations that were meant for the biggest, most complex institutions, while also ensuring a safe financial system.”

Sen. Tillis is a well-known supporter of big Wall Street banks. While celebrating the passage of S.2155 at the time, he also revealed the bank lobby’s agenda for what they hoped would come afterwards: deregulation for those megabanks. “We've not only got to get to the regulatory relief for the $250 billion threshold,” he said. “I think we have to go beyond that.”

Yes, you read that right. If Sen. Tillis had his way in 2018, the banking crisis of 2023 might have involved some of the biggest banks in the world.