Regulation of Regional Banks

Large Regional Banks

- Over $50 billion, not a global SIFI
- 25 bank holding companies holding over one-fifth of assets in prudentially regulated banks.

Total Assets Held

<u>6534 BANKS UNDER $50 BILLION</u>

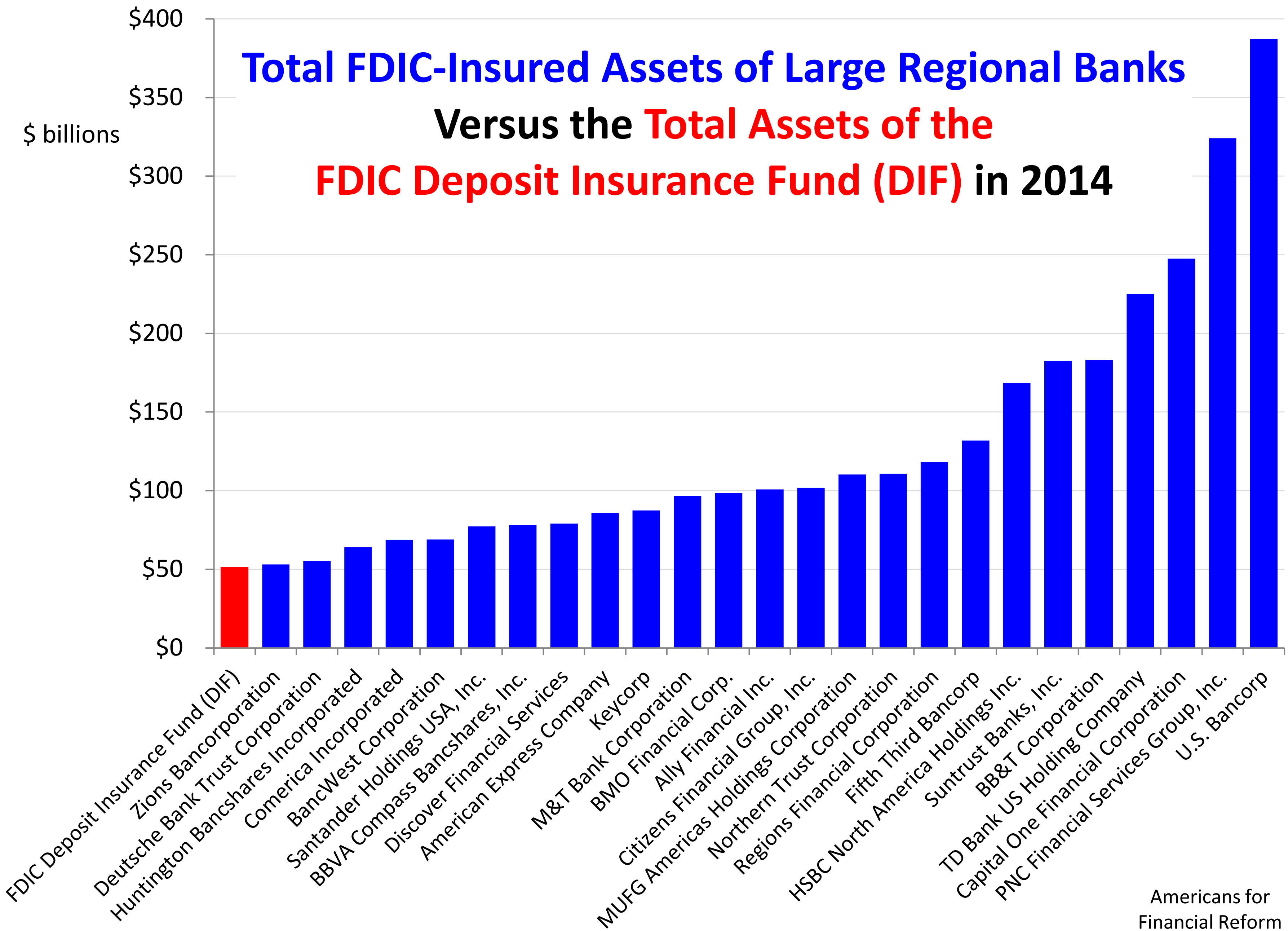
$4.1 trillion total assets

<u>25 LARGE REGIONAL BANKS</u>

$3.7 trillion total assets

<u>8 GLOBAL SIFIs</u>

$10.5 trillion total assets



Total FDIC-Insured Assets of Large Regional Banks
Versus the Total Assets of the
FDIC Deposit Insurance Fund (DIF) in 2014
$ billions
$400
$350
$300
$250
$200
$150
$100
$50
$0
FDIC Deposit Insurance Fund (DIF)
Zions Bancorporation
Deutsche Bank Trust Corporation
Huntington Bancshares Incorporated
Comerica Incorporated
BancWest Corporation
Santander Holdings USA, Inc.
BBVA Compass Bancshares, Inc.
Discover Financial Services
American Express Company
Keycorp
M&T Bank Corporation
BMO Financial Corp.
Ally Financial Inc.
Citizens Financial Group, Inc.
MUFG Americas Holdings Corporation
Northern Trust Corporation
Regions Financial Corporation
Fifth Third Bancorp
HSBC North America Holdings Inc.
Suntrust Banks, Inc.
BB&T Corporation
TD Bank US Holding Company
Capital One Financial Corporation
PNC Financial Services Group, Inc.
U.S. Bancorp
Americans for Financial Reform

Large Regionals In the Financial Crisis

- Indymac -- $32 billion in assets on failure.
  - Conservatorship; loss of $11 billion to deposit insurance fund before bank could be sold.
- National City -- $150 billion in assets.
  - Sold to PNC under pressure; successful acquisition.
- Countrywide -- $211 billion in assets at sale.
  - Forced sale to Bank of America; BoA incurred tens of billions in losses due to Countrywide assets.
  - Countrywide originated close to 20% of mortgages nationally in the later years of the housing boom.

Large Regionals In the Financial Crisis

- Washington Mutual: $307 billion on failure.
  - Sale to JP Morgan.
  - No loss to DIF, but JP Morgan still threatening to sue the government over WaMU liabilities
- Wachovia -- $780 billion on failure
  - Declared systemically significant.
  - Sold to Wells Fargo
- These are only <u>commercial</u> banks
  - Investment banks in the $300-700 billion range obviously played a central role in the crisis.

Some Lessons

- Large regionals may not be TBTF, but resolution is not simple.
  - Risk taxpayer losses or sell to a larger bank.
- Even if a large regional is not TBTF as <u>an individual bank</u>, failures of large regionals can create substantial <u>financial system stress</u>.
- Prudential regulators did a really bad job.

Title I Of the Dodd Frank Act

- Requires regulators to <u>improve pre-existing prudential regulation</u> for larger banks.
  - Gradually increasing standards starting at $50 billion.
  - Regulators can and are required to vary standards based on size, complexity.

- <u>Designation</u> of non-banks that are not within the safety net for new prudential regulation.
  - Individual entity found to be systemically significant.
  - These entities have never been prudentially regulated.

Implementation of Title I

- Substantial variance in new bank regulations based on bank size.
- Are rules for large regionals too strict?
- If so, this can be addressed by regulators within existing statutory framework.
- Proposals for radical amendment (e.g. HR 2309) conflate non-bank designation with bank supervision.