AMERICANS
FOR FINANCIAL REFORM
ACCOUNTABILITY * FAIRNESS * SECURITY

Americans for Financial Reform
1629 K St NW, 10th Floor, Washington, DC, 20006
202.466.1885

LARGE REGIONAL BANKS AND THE DODD-FRANK ACT

MYTHS AND REALITIES

In recent months there have been calls to roll back regulation of large regional banks. Large regional banks are banks that hold over $50 billion in assets but are not among the eight U.S. mega-banks with a global footprint, such as JP Morgan or Citibank. These large regional banks, while much smaller than the very largest Wall Street mega-banks, are still a major part of the financial system. The 26 large regional banks are among the largest one-half of one percent of all banks in the U.S. – far larger than community banks. As shown on the attached chart, these banks collectively hold $3.9 trillion in assets, or 21% of all banking system assets. Some have claimed that the Dodd-Frank Act automatically designates large regional banks as systemically significant and inappropriately treats them identically to the very largest Wall Street banks. As discussed below, these claims are false.

Myth: The Dodd-Frank Act designates large regional banks of $50 billion and over as 'systemically significant' (SIFIs) or 'too big to fail' (TBTF).

Reality: This is not true. Nowhere in the Dodd-Frank Act is there any designation of large regional banks as SIFIs, as systemically significant, or as 'too big to fail.' The confusion around this issue appears to have come from misinterpreting the provision in Section 165 of the Dodd-Frank Act, which provides that all bank holding companies over $50 billion are subject to 'enhanced supervision and prudential standards.' However, regulators have great discretion to vary these standards so long as they exceed the standards that apply to smaller banks.

Myth: Under the Dodd-Frank Act, regulators treat large regional banks of $50 billion and up just like giant Wall Street banks such JP Morgan or Citibank with trillions in assets.

Reality: Not only is this not true, but Section 165(a) of the Dodd-Frank Act specifically requires regulators to treat banks over $50 billion differently based on their size and activities, with larger and more complex banks subject to stricter regulations. In accordance with this requirement, regulators have carefully scaled prudential regulations to the size of the bank and the systemic risk it poses. For example, additional capital requirements under the 'supplementary leverage ratio' apply only to banks over $250 billion, and the toughest capital and risk management rules apply only to eight of the largest and most complex U.S. banks designated as Global Systemically Important Banks (G-SIBs).

<u>Myth</u>: Large regional banks had nothing to do with the financial crisis.

<u>Reality</u>: Washington Mutual, Countrywide, and Wachovia were large regional banks, and they played a significant role in the financial crisis. These banks participated in massive amounts of dangerous and irresponsible mortgage lending, and all three collapsed in 2008. Their failure impacted the stability of the financial system and helped contribute to the general financial panic in late 2008. The example of Countrywide also shows how the 'originate to distribute' model of securitized lending can cause an institution to have an impact on the financial system that is far out of proportion to the size of its asset base. In 2003, for example, Countrywide had on balance sheet assets of $97 billion but originated 11 percent of all new mortgage loan volume nationally.

<u>Myth:</u> The failure of one or more large regional banks does not pose any risk to the financial system and would not be difficult to manage.

<u>Reality</u>**:** As individual entities, large regional banks are not considered 'too big to fail.' If any single one of these banks failed in isolation, it would probably be possible to sell off elements of the failed bank to other financial entities and reimburse the deposit insurance fund. However, if a large regional bank failed at a time of general financial stress, its failure might trigger the failure of other banks. In combination, the 26 large regional banks hold $3.9 trillion in assets, over one-fifth of all banking assets in the country. If multiple failures occurred among these banks, substantial financial stress could result and bank failures could become extremely difficult to manage. As Federal Reserve Governor Daniel Tarullo stated in a May, 2014 speech[1]:

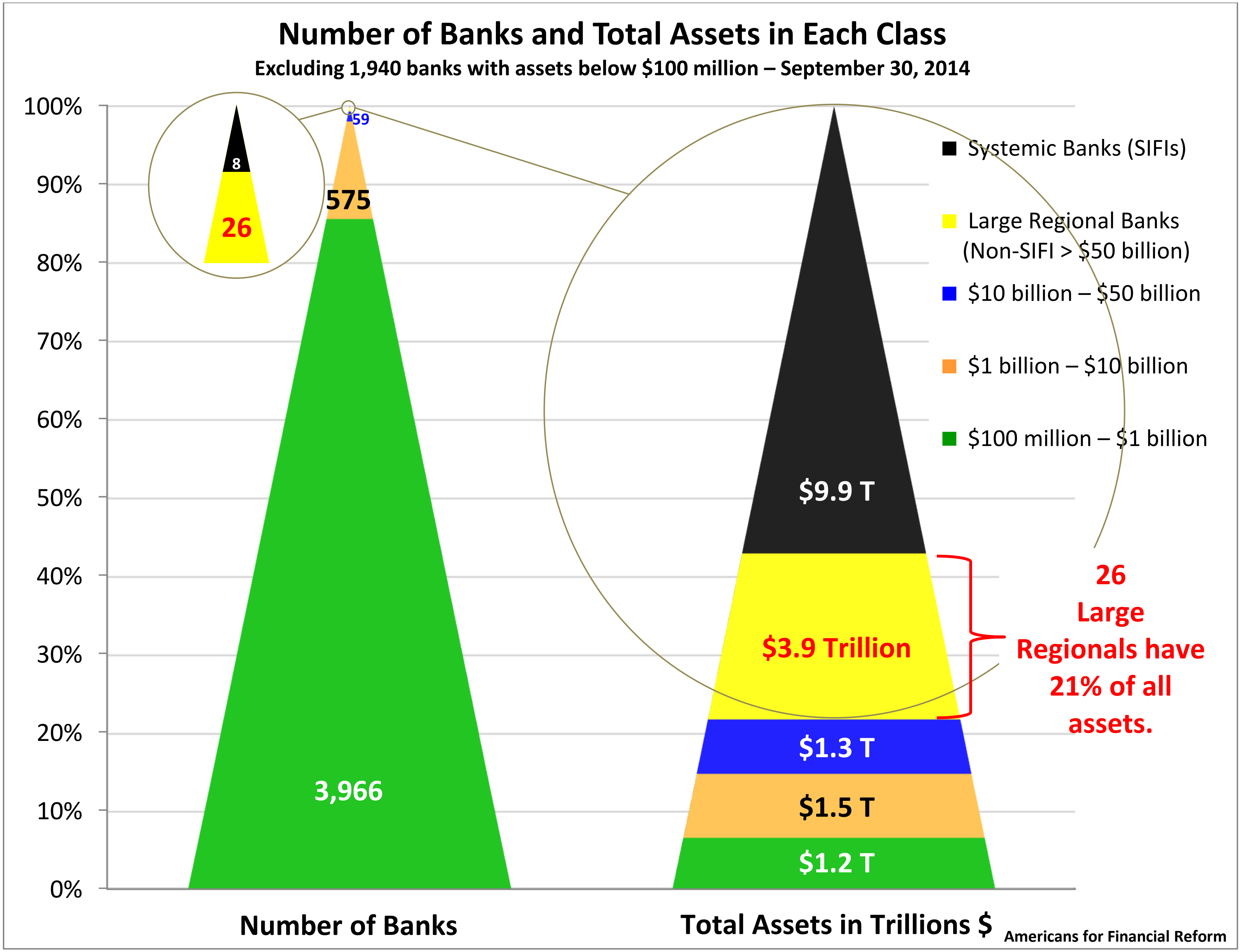
"…some at the higher end of this range may have a large enough systemic footprint that their stress or failure could have material effects on the rest of the financial system….If a number of these [large regional] banks simultaneously came under pressure or failed, a harmful contraction of credit availability in significant regions or sectors of the economy could ensue."

<u>Myth</u>: Legislation exempting large regional banks from elements of the Dodd-Frank Act consists of technical changes that would not seriously weaken regulatory oversight.

<u>Reality</u>: Legislation such as HR 4060 in the 113th Congress, while sometimes described as a limited change targeted only at regional banks, would actually be a major deregulatory change. HR 4060 imposes a new requirement that banks can only be designated for heightened prudential oversight through a two-thirds vote of ten different financial regulators on the Financial Stability Oversight Council (FSOC), and that this designation can only be undertaken pursuant to standards certified by the international Basel committee made up of banking regulators from over two dozen countries. This requirement could radically weaken the regulatory authority of U.S. banking regulators, undermining basic safety and soundness authorities in place since the 1930s. These changes would not just undo important parts of the Dodd-Frank Act, they would reduce regulatory authority even beyond what it was prior to the financial crisis.

---

[1] Tarullo, Daniel, "Rethinking the Aims of Prudential Regulation", May 8, 2014


Number of Banks and Total Assets in Each Class
Excluding 1,940 banks with assets below $100 million – September 30, 2014
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
8
26
59
575
3,966
Systemic Banks (SIFIs)
Large Regional Banks (Non-SIFI > $50 billion)
$10 billion – $50 billion
$1 billion – $10 billion
$100 million – $1 billion
$9.9 T
$3.9 Trillion
$1.3 T
$1.5 T
$1.2 T
26 Large Regionals have 21% of all assets.
Number of Banks
Total Assets in Trillions $
Americans for Financial Reform