Brown, Vitter: New Industry-Funded Report is Latest Attempt to Protect Too Big to Fail Policies Enjoyed By Megabanks

Wednesday, March 19, 2014

(Washington, D.C.) – Following today's report commissioned by an industry-funded think tank on the need to protect "Too Big to Fail" policies for megabank institutions, U.S. Sens. Sherrod Brown (D-OH) and David Vitter (R-LA), sponsors of the Terminating Bailouts for Taxpayer Fairness Act (TBTF Act) released the following statements:

"When megabanks are already lobbying the GAO to protect their taxpayer-funded subsidies, it's pretty obvious that they'd pay for studies that give them the results they want to see," Vitter said. "But the facts are clear: too big to fail is alive and well, and we shouldn't let megabank funded reports like these give them more ammunition to continue collecting from the taxpayers."

"It should come as no surprise that an industry-funded study stands in direct contradiction to what leading, independent economists, regulators, and other experts, say about the 'Too Big to Fail' subsidy enjoyed by megabank institutions," Brown said. "This report only underscores the efforts by Wall Street megabanks to muddy the waters and protect the status-quo that requires hardworking taxpayers to pay for their risky activities."

Experts have raised questions about the methodology behind past pro-industry studies done by the consulting firm behind today's report, Oliver Wyman.

The nation's largest Wall Street banks enjoy an implicit guarantee—funded by taxpayers and awarded by virtue of their size—as the market knows that these institutions have been deemed "too big to fail." This allows the nation's largest megabanks to borrow at a lower rate than regional banks, community banks, and credit unions. This funding advantage, which has been confirmed by three independent studies in the last year, is estimated to be as high as $83 billion per year. Together, Brown and Vitter have successfully pressed the Government Accountability Office (GAO) to conduct a study of the economic benefits that the "too-big-to-fail" megabanks receive as a result of actual or perceived taxpayer funded support.

Brown-Vitter, or the Terminating Bailouts for Taxpayer Fairness Act (TBTF Act), would ensure that financial institutions have adequate capital to protect against losses. Specifically, the TBTF Act would:

Set reasonable capital standards that would vary depending on the size and complexity of the institution. Economic and financial experts agree that adequate capital is critical to financial stability, reducing the likelihood that an institution will fail and lowering the costs to the rest of the financial system and the economy if it does.

- Mid-sized and regional banks would be required to hold eight percent in capital to cover their assets
- Megabanks – institutions with more than $500 billion in assets – would be required to meet a new 15 percent capital requirement
- Community banks would remain unchanged by the legislation, as the market already requires them to maintain capital ratios approaching 10 percent of their assets

Limit the government safety net to traditional banking operations. When the government established the Federal Reserve in 1913 as a lender of last resort and created deposit insurance in response to the Depression, support was intended for commercial banks that provided savings products and loans to American consumers and businesses. At that time, most banks had enough shareholder equity equal to 15 to 20 percent of their assets. In the ensuing decades, the expanding federal safety net allowed financial institutions to depend less and less on their own capital. Federal support was stretched far beyond its original focus, particularly when financial institutions were permitted to enter into the business of insurance, securities dealing, and investment banking. Brown and Vitter's bill would limit the government safety net to traditional banking operations, protecting commercial banks rather than risky, investment banking activities.

Provide regulatory relief for community banks. By reducing regulatory burdens upon community banks, they can better compete with mega institutions. Because community institutions do not have large compliance departments like Wall Street institutions, this legislation provides commonsense measures to lessen the load on our local banks.

• Expands the definition of "rural" lenders that can offer balloon mortgages
• Reduces some impediments for small banks and thrifts to raise capital or pay dividends.
• Creates an independent bank examiner ombudsman that institutions can appeal to if they feel that they have been treated unfairly by their examiner.
• Adopts privacy notice simplification legislation.

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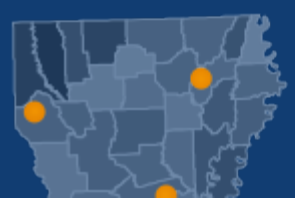

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