Newsroom

Shelby Statement at Hearing on Examining the Regulatory Regime for Regional Banks

March 19, 2015

WASHINGTON, DC – Thursday, March 19, 2015 – U.S. Senator Richard Shelby (R-Ala.), Chairman of the United States Senate Committee on Banking, Housing, and Urban Affairs, today delivered the following opening remarks during a full committee hearing on "Examining the Regulatory Regime for Regional Banks."

The text of Chairman Shelby's remarks, as prepared, is below.

"This week and next, the Committee will examine the impact of the existing regulatory framework on regional banks. Today we will hear from regulators on the current regulatory construct and whether it should be imposed on these institutions.

"Regional banks fulfill a critical role in their communities. They represent what we all recognize as traditional banking. They, for the most part, take deposits so that they can provide residential, small business and commercial loans. This is the fuel that drives local and regional economic growth.

"Unfortunately, these banks have been placed in a regulatory framework designed for large institutions because of an arbitrary asset threshold established by the Dodd-Frank Wall Street Reform and Consumer Protection Act.

"The title of the Act says 'Wall Street', but today we are talking about banks that call Birmingham, Alabama and Cincinnati, Ohio home.

"The Dodd-Frank framework subjects all banks with assets of $50 billion or more to enhanced prudential standards, which carry heightened capital requirements, leverage, liquidity, concentration limits, short-term debt limits, enhanced disclosures, risk management, and resolution planning.

"Five years after this new regulatory framework was conceived, I believe that it is appropriate to revisit its suitability for these particular institutions.

"Many experts have expressed concern about an arbitrary $50 billion threshold as an automatic cut-off for systemic risk. I share their concerns.

"It has been said that 'Regulators should not apply macro prudential rules to those institutions that do not pose macro prudential risks.' I could not agree more.

"I have always been a proponent of prudent regulation and strong capital requirements. We must, however, consider the economic impact of subjecting banks that are not truly systemically risky, to enhanced prudential regulation. We must also ask whether the existing regulatory framework is the best use of regulators' resources.

"I would like to hear from the witnesses today whether the $50 billion threshold is the appropriate and most accurate way to determine systemic risk in our banking sector.

"A recent paper by the Office of Financial Research examines broad indicators used by global bank regulators to determine when a bank is systemically important.

"In fact, global bank regulators do not focus strictly on asset size – rather, they take a broader view of a bank's total exposures that captures activities beyond assets.

"The Office of Financial Research report takes into account the bank's size, interconnectedness, and complexity, among other factors, and applies this criteria to regional banks in the United States.

"The results of this analysis show that regional banks generally pose a small fraction of the risk to the financial system compared to the largest banks. The report states that the dataset is 'a significant step in quantifying specific aspects of systemic importance.'

"What this analysis reveals is in stark contrast with the in-or-out approach mandated by the $50 billion threshold.

"Some supporters of this automatic in-or-out approach to systemic risk argue that the regulators can tailor requirements based on the institution's size. What this argument fails to take into account is that the law that established this regulatory framework is very prescriptive on how the regulators can tailor their regulations.

"For example, under the current system, a $51 billion bank must receive disparate treatment from regulators compared to a $49 billion bank.

"The statute effectively ties regulators hands from taking into account a holistic view similar to that employed by the Office of Financial Research in its analysis on systemic risk.

"A regulatory system that is too constrictive is not a system that will allow our banks to thrive or consumers and businesses to have access to affordable credit.

"Moreover, a system that directs regulators' resources away from issues of systemic importance raises questions on whether regulators are adequately focused on protecting the economy and American taxpayers from the next financial crisis.

"When the Ranking Member and I first met to discuss the agenda for the 114th Congress we shared a common interest that the SIFI threshold was one of a number of topics upon which we should focus. Today, we begin that effort. Thank you."

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March 3rd Shelby Statement at Hearing on Federal Reserve Accountability and Reform

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