Brown, Vitter: Leverage Ratio Standards Represent Major Step Forward, But Congress Must Pass Legislation Ending "Too Big to Fail"

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WASHINGTON, D.C. – U.S. Sens. Sherrod Brown (D-OH) and David Vitter (R-LA) today applauded a “major step forward” after the Federal Deposit Insurance Corporation (FDIC), Office of the Comptroller of the Currency (OCC), and the Federal Reserve announced a plan to increase the mandatory leverage ratio for banks. In April, Brown and Vitter introduced the *Terminating Bailouts for Taxpayer Fairness Act* (TBTF Act), which would ensure that financial institutions have adequate capital to protect against losses.

“It’s encouraging that regulators are moving toward the standards in Brown-Vitter, which would end too-big-to-fail by ensuring that Wall Street megabanks can back up their risky practices,” Brown said of today’s announcement by the regulators. “Today’s announcement is a major step forward, but it should only be the first step. We must do more, and this proposal will be insufficient if it is weakened by Wall Street lobbying. That’s why we must pass Brown-Vitter and end too-big-to-fail once and for all.”

"This is a major step in the right direction of higher capital standards that so many, including Sherrod Brown and me, have been pushing for. And the regulators are saying they may consider more,” Vitter said. “For our part, we'll continue to build support for Brown-Vitter and the complete and final end to 'too big to fail.'"

Despite receiving assistance from taxpayers in 2008, today, the nation’s four largest banks—JPMorgan Chase, Bank of America, Citigroup, and Wells Fargo—are nearly $2 trillion larger today than they were before the crisis. Their growth has been aided by 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.

Attached materials:

- Bill Summary
- Section-by-Section Guidance
- Statements of Brown-Vitter

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