S. 2155: The Consequences of Deregulating Bailed-Out Banks

26 of the largest banks in the world stand to be the big winners under S. 2155. Many of the same megabanks that needed trillions of dollars in taxpayer-funded bailouts less than a decade ago[1] will get "relief" from important financial stability rules intended to protect American taxpayers – and the American economic system – from another catastrophic crash like that of 2008-2009.

Whether voting for or against the bill, people should understand these three important changes it would make, and the consequences of those changes:

1. Reducing or eliminating Fed scrutiny of banks with a proven record of dangerous behavior

S. 2155 would replace the easy-to-understand, easy-to-administer $50 billion threshold for risk-tailored enhanced Federal Reserve (Fed) supervision[2] with an arbitrary, complicated, multi-factor and potentially political process for banks as big as $250 billion. The new discretionary approach for banks between $100 and $250 billion in assets greatly weakens vital financial stability rules.

Currently, the $50 billion threshold applies to just 38[3] of the approximately 6,000 banks in the United States. In other words, it already *excludes more than 99% of all banks in the United States*, including 100% of the often cited "community banks." By raising the threshold to $250 billion, S. 2155 would exempt 26 megabanks from rigorous Fed scrutiny even though those same megabanks' risky activities required just ten years ago more than $2.5 trillion in bailouts to stay afloat.

2. Outsourcing oversight of foreign megabanks and exposing U.S. taxpayers to bail them out

The Fed requires large foreign banks with more than $50 billion in U.S. assets to establish an intermediate holding company, ensuring their U.S. operations maintain the same systemic risk and taxpayer bailout protections as other U.S. banks.

If S. 2155 is passed, and the $50 billion threshold for enhanced Fed supervision is increased to a new threshold of $250 billion, U.S. regulators will almost certainly "harmonize" the rules for international banks with American subsidiaries, despite the fact that many of these banks have global assets that rank them among the largest banks in the world. Secretary Mncuhin confirmed as much during a recent Senate Banking Committee hearing, testifying that the Trump Administration would seek to use the authority given to the Fed under S. 2155 to deregulate these foreign banks.

3. Blowing a loophole in the Volcker Rule

S. 2155 would exempt banks with less than $10 billion in assets from the Volcker Rule, which bars banks from engaging in speculative trading with their federally-insured deposits. Current FDIC Vice Chairman Thomas Hoenig say this loophole would permit hedge funds and larger banks to use community banks as an FDIC-insured front for risky trades that would otherwise be prohibited, threatening to permit banks to engage unacceptably risky behavior.

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[1] See [title/hyperlink other one pager]

[2] See [$50 B fact sheet – should we update and reissue?]

[3] https://www.ffiec.gov/nicpubweb/nicweb/HCSGreaterThan10B.aspx