Wall Street's Biggest Banks' CEOs Must Address Key Issues at Senate Banking Committee Hearing

December 5, 2023

For America to work for Main Street Americans, it needs a financial system that supports the real, productive economy, not one engaged in anti-social speculative bonus-boosting activities that are little more than gambling bets. Finance used to be a wealth generation system for the many; too often it is now a wealth extraction mechanism for the few. That is largely due to financiers using their economic power to buy political power and change the rules to enable them to take dangerous, unreasonable risks where they get to keep the profits and shift their losses to the American people.

That's why the CEOs from Wall Street's eight largest banks testifying at the Senate Banking Committee must be made to answer questions about the key issues that are important to Main Street Americans and businesses. Senators must cut through the banks' lobbying, doubletalk, and PR campaigns, often designed to mislead Americans on issues that are vital to their jobs, small businesses, community banks, and the economy. For example, Wall Street's banks have been making wildly exaggerated and fabricated claims about the impact of long overdue, modest new capital rules that would protect Main Street from Wall Street biggest banks, which have pocketed $1 trillion in earnings over the last 10 years and continued their lawbreaking, racking up more than $9 billion in fines just since May 2022.

While Main Street Americans, the banking system, and the economy are still recovering from the 2nd, 3rd, and 4th largest bank collapses in history that happened earlier this year - which also saw the biggest too-big-to-fail bank get even more dangerously bigger - bank CEOs must be forced to have workable resolution plans so that when they get into trouble they don't cause a crisis and need taxpayer bailouts to prevent a financial crash. If the banks that failed earlier this year had more capital and workable resolution plans, they wouldn't have failed and required bailouts or caused contagion, chaos, and cost the American people more than $34 billion in bailouts as well as tens of billions more in lost GDP, increased costs of borrowing, and depositor flight.

These banks also have to answer for their failures to properly plan for climate-related financial risks. As insurers act to protect their profits by leaving Main Street even more vulnerable to the climate crisis, bank CEOs keep blindly lending into those very same high-risk areas that the insurance companies are fleeing. The banks have to start including those risks into their planning and regulators have to force them to include them in their capital requirements. Finally, as crypto carnage continues to wreak havoc on those that have chosen to engage with it, it remains as important as ever to ensure that the banking sector remains separate and protected from the lawlessness and speculative frenzy of the crooked crypto industry.

The Truth About Capital

The proposed capital rules apply to less than 40 of the largest and most dangerous megabanks in the country. Properly capitalized megabanks are essential for a strong banking sector, financial system, and economy that empowers Main Street families and businesses. Under-capitalized megabanks threaten all that because the only thing standing between a failing megabank and a taxpayer bailout if not a financial crash is the amount of capital that a megabank has to absorb its own losses. It's like a home buyer's down payment on a house: if the value of the house drops, the homeowner absorbs the first 20% of losses so the lender doesn't have to cover those losses. The down payment protects the lender like capital protects the financial system and the public, which are only at risk after the bank's own capital is depleted.

But what is good for Main Street isn't good Wall Street, in particular for the CEOs and executives who never mention but focus manically on getting the biggest bonuses possible. For instance, the CEO and executives of Silicon Valley Bank (SVB) pocketed tens of millions of dollars in bonuses from taking gigantic risks that caused their bank to collapse. Higher capital would reduce megabank risk-taking and protect Main Street families from the costs those banks shift to the public, but it would also lower their bonuses. That's why bank CEOs and lobbyists are really fighting against higher capital levels.

Of course, they don't say that. Instead, they create smokescreens if not outright lies to conceal their real interests. Basically, they are trying to distract people from the very real dangers of **undercapitalized** megabanks to the fabricated dangers from **overcapitalized** banks. In effect, they are saying if capital is increased, they will have too much capital and that will force them to reduce lending. That is false.

For example, they claim their mortgage lending business will be reduced. However, the megabanks actually do very little mortgage lending. In fact, according to a Bloomberg story citing Inside Mortgage Finance, no megabank holds more than 3% of the market for originating mortgages. Wells Fargo, the megabank with the most mortgage lending, said that the capital rules won't "really change much of what we do in the home lending business."

The megabanks also claim an increase in capital will hurt their small business lending, but, again, they only hold a small share of small business lending, relative to their large size. In contrast, community banks are far larger supporters of small businesses than Wall Street megabanks. For example, an FDIC study shows that community banks account for 36 percent of all small business loans, more than double their 15 percent share of the banking industry's total loans. In other words, Wall Street banks have already turned away from small businesses, not because of capital requirements but because of their own business decisions. Furthermore, small businesses do not regard capital as a key problem. The latest National Federation of Independent Business data show that only 2% of small business owners report that their borrowing needs were not met.

The truth is that the increased capital is primarily based on the megabanks high risk, dangerous trading and investment activities (their trading book), not their lending activities to Main Street families and businesses. That's why the Fed estimates that the higher capital requirements will increase the cost of real lending by at most 3 basis points out of 100 basis points, or no more than 0.03 percent. That is a very small increase, and it may not necessarily even mean an increase to the cost of lending at all. It will only result in an increased cost of lending if the banks decide to pass those costs to their borrowers. They could – and should - decide not to pass along these costs to consumers and instead build capital by retaining earnings and reducing dividends, bonuses, and stock buybacks.

The megabanks also claim that they already have enough capital and that they have way more capital than they did in 2008 when their lack of capital caused the worst financial crash since the Great Crash of 1929. However, the benchmark can't be how much more capital the megabanks had based on when it was so extremely dangerously low that it caused a catastrophic financial crash like 2008. The benchmark has to be how much capital should megabanks have to protect the American people from megabanks causing another mega-crash and having to be bailed out again. For example, the root cause of SVB's failure was that it did not have enough capital, relative to its riskiness and the financial stability implications of its failure. Thus, it's not how much capital a megabank had or has, but how much they should have. That's what the new capital rules seek to accomplish.

The megabanks also claim that the capital rules will put them at a competitive disadvantage, causing shadow banks to “dance in the streets.” The claim is that lending will move from the properly capitalized megabanks to undercapitalized systemically significant shadow banks. However, the proposed solution – to not properly capitalize banks, resulting in both banks and nonbanks being not properly capitalized – is nuts and would be the worst of all worlds. The solution is not to dangerously undercapitalize banks; it’s to properly regulate systemically significant shadow banks. That would eliminate any competitive disadvantage and protect against the threats banks face from under-regulated shadow banks. That’s important because, as was evidenced in the crashes of 2008 and 2023, banks are deeply interconnected with nonbanks and, when nonbanks get into trouble, they can and do endanger banks.

Finally, the largest banks ***can*** afford a capital increase. Not only have they made more than $1 trillion in earnings in the last 10 years, but they also continue to pay very high dividends, bonuses, and stock buybacks that benefit executives and shareholders. In just the last decade, the four largest banks (JPMorgan Chase, Bank of America, Citi, and Wells Fargo) paid out $584 billion to shareholders through share buybacks and dividends, representing a whopping 80% of their net income. If they had instead paid out – for example – “just” 70% of their net income they would have had $58 billion more in capital, which they could have used to make more mortgage and small business loans that they now pretend to care so much about. And, the profits keep coming—in the third quarter of 2023 alone, the four largest banks reported about $30 billion in profit, 45 percent of the banking industry’s total.

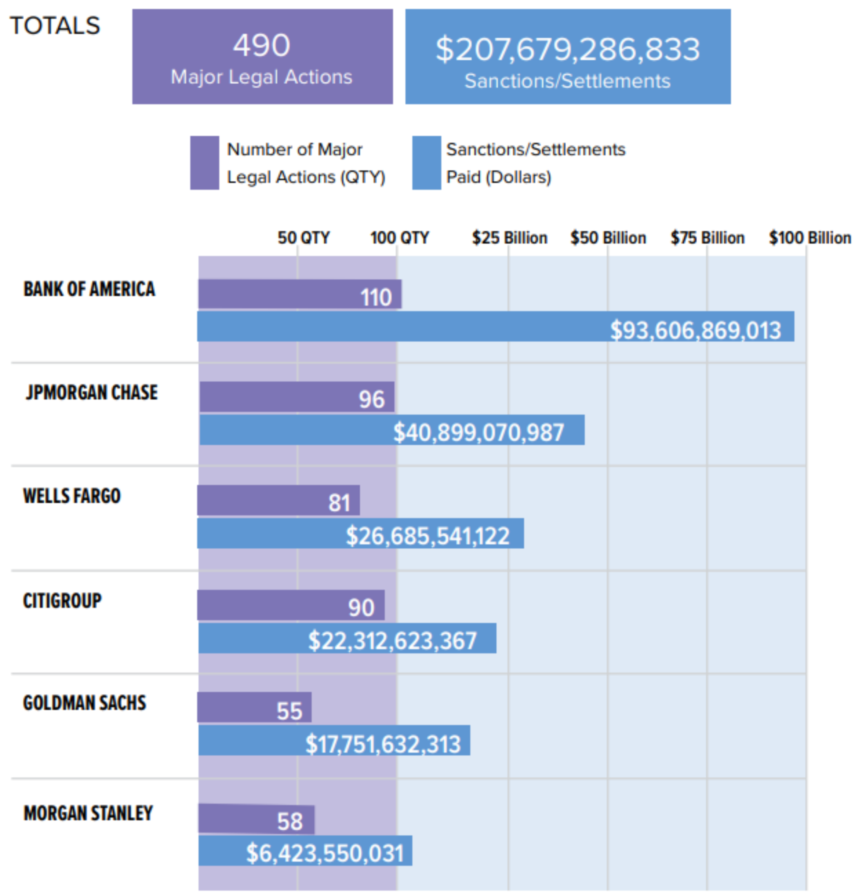
Read more on capital at these resources below:

- American Banker Op-Ed: Well Capitalized Banks are Good for Everyone, Except Wall Street CEOs
- Fact Sheet: 10 False Claims About Capital
- Report: Policymakers Must Protect the Economy by Strengthening the U.S. Banking System Through Higher Capital Requirements
- Webpage: Standing Up to the Bank Lobbyists on Capital
- Policy Brief: Ten Actions Necessary to Prevent Large Bank Failures, Strengthen the Financial System, and Protect Main Street Families
- Report: Banking Crisis Exemplifies the Fed’s Enforcement Failures: Here’s What to Do About It

Wall Street Nonstop Law Breaking:

In the last 15 months, the six largest banks, JPMorgan Chase, Bank of America, Citi, Wells Fargo, Goldman Sachs, and Morgan Stanley, have collectively had over 60 new cases which have resulted in over $9bn in fines arising from the banks’ ripping off, discriminating against, or financially endangering their customers. The CEOs should answer for the lawlessness happening withing their banks. All of these cases brought by the government and by private plaintiffs starkly confirm a core truth about our country’s largest banks. While banks portray themselves as upstanding corporate citizens whose primary mission is to help Americans fulfill their financial dreams, in truth they each have a dark side as unrepentant recidivists, breaking virtually every financial law and rule imaginable, often multiple times. The banks’ ongoing, repeated, and unlawful conduct directly impacts the wallets and lives of Main Street Americans, many of whom are vulnerable and simply unable to bear the losses when they are victimized.

Since 2000, the six megabanks have been involved in almost 500 legal actions resulting in over $200 billion in fines and settlements. bank-by-bank snapshot is below:



It is clear that these fines and settlements have been simply inadequate. They have not been nearly enough to punish these banks for their prior illegal behavior or to deter them from engaging in future illegal conduct because the number of violations continues to climb! In fact, it appears that the banks view these fines and settlements—even on the scale of tens of billions of dollars—as just a cost of doing business, a speed bump on the road to ever larger bonuses. That is why those banks keep breaking the law, occasionally getting caught but always buying their way out of serious consequences through sweetheart settlements.

How and why does this keep happening? The answer is three-fold. First, the opportunity to acquire vast corporate and personal wealth in a short period of time is irresistible for too many banks and their executives. Second, enforcement is so infrequent, ineffective, and weak that it virtually rewards past lawbreaking and incentivizes future lawbreaking. In fact, these cases represent a failure of the cops on the Wall Street beat, who are supposed to punish and deter illegal activity in our financial markets. And rarely are high-level bank executives or board members involved in the misconduct held accountable. Third and finally, the banks' lawbreaking is treated as if it were an isolated misstep by a first-time offender, rather than just the latest egregious example of recidivism that would have resulted in any other business in American being shut down as a corrupt if not criminal enterprise.

Read more here:

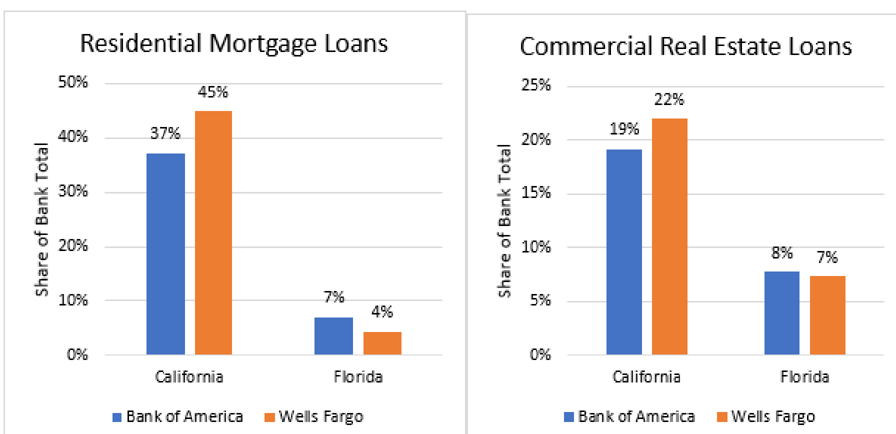
- Report: Wall Street's Ongoing Crime Spree: 2023 Rap Sheet
- Fact Sheet: 2023 Rap Sheet One-Pager

Climate Related Financial Risk:

To limit their losses from climate events, insurance companies are going bankrupt and withdrawing from high-risk markets, including entire states like Florida and California. As a result, consumers and businesses seeking insurance in those states and areas have less choice and face higher costs for insurance, if they can get coverage at all. As this occurs, communities will deteriorate as home values decline, small businesses close, outmigration increases, and uninsured or underinsured consumers and businesses face bankruptcy.

Banks are going to end up bearing much of those climate-related losses because they have large and increasingly concentrated portfolios of loans and other credit instruments to those now uninsured or underinsured real estate properties and businesses. For example, more than one-third of Bank of America and Wells Fargo's residential mortgage loans are in California, as are about one-fifth of their commercial real estate loans are also in California. By definition, therefore, these megabanks are concentrated in high-risk areas that insurers are fleeing.

Residential and Commercial Real Estate Lenders Are Concentrated in States That Are Vulnerable to Climate-Related Financial Risk



Source: Bank of America and Wells Fargo Annual Reports, 2022.

Additionally, California lost 25% of their insurance providers since 2008. These risks must be properly addressed as the climate crisis continues to worsen and threaten our financial system. The CEOs of these banks must have an adequate plan to account for this risk and ensure that it does not lead to another banking crisis.

Read more here:

- Report: The Unseen Banking Crisis Concealed Behind the Climate Crisis

Crypto and the Banking Industry:

Regulators at the banking agencies withstood enormous political and industry pressure to allow crypto access into the core of the financial and banking system. The only reason the crypto carnage hasn't turned into a financial crisis, crash and bailouts is because those regulators did not allow those interconnections, which is what happened with subprime mortgages (and derivatives, thanks to the CFMA) in the early 2000s leading directly to the 2008 crash.

Crypto's only proven use case is for financing terrorists like Hamas and ISIS, rogue states like North Korea and Iran, enabling sanctions and tax evasion like Russia, and money laundering for criminals and narco-terrorists, as well as lying, cheating, stealing, gambling, and ripping off investors and customers. This lawless industry can exist because contrary to what crypto proponents would have you believe, crypto is not transparent. Indeed: (i) blockchains are anonymous and include no beneficial ownership information; (ii) blockchains can be corrupted by the use of mixers and tumblers; and (iii) centralized or decentralized entities accessing blockchains, and performing off-chain transactions, often are not required to comply with know-your-customer or anti-money laundering and bank secrecy act laws and regulations, like every bank CEO testifying before the Senate Banking Committee must comply with.

Stablecoins – or more accurately unstablecoins - are another bank-like product that the crypto industry seeks to legitimize through legislation and a connection to the traditional financial system. However, the short history of stablecoins has been characterized by instability, bank-like runs, and tens of billions of dollars in investor losses. The use of the moniker "stablecoin" has become a misnomer in that these financial products are anything but stable. A more appropriate name would be "unstablecoins" considering how susceptible they are to bank-like runs and how often they depeg from their so-called "stable" value. If legislation and regulations break down the barriers between "unstablecoins" and the traditional banking sector, the fallout from these runs will be even more devastating to Main Street Americans and small businesses who chose not to play within the crypto crooks and casinos. It's clear that these risky products must remain separate from banking activity and the traditional financial sector.

Read more here:

- Fact Sheet: Crypto, FTX, Sam Bankman-Fried, SEC, CFTC, Banking Regulators and the Revolving Door
- Fact Sheet: "Un" Stablecoins and Risks to Investors, Consumers, and Economic Productivity
- Press Release: 10 Reasons Not to Enact Crypto's Special Interest Bailout Bill

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