March 31, 2023

Brian Gardner
Chief Washington Policy Strategist
bgardner@stifel.com

WASHINGTON POLICY STRATEGY

Potomac Perspective

The White House issued a Fact Sheet that puts forth several recommendations for banking regulators as they consider changes in the regulations of larger regional banks. The recommendations are aimed at banks between $100 billion and $250 billion in assets and have been telegraphed over the past few weeks. See below for an outline of the Fact Sheet and upcoming policy actions to monitor.

White House Fact Sheet on Large Regional Bank (LRB) Regulation – On Thursday, the White House issued a Fact Sheet pertaining to the supervision of LRBs. The target of these changes in LRB regulations is banks between $100 billion and $250 billion in assets. The Biden administration's recommendations have been telegraphed and do not appear to include any surprising recommendations. The key recommendations include:

- Reinstating rules that were rolled back in 2019 for banks with assets between $100 billion and $250 billion, including:
  - **Liquidity requirements** and enhanced liquidity stress testing.
  - **Annual supervisory capital stress tests.** This does not appear to include the Comprehensive Capital Assessment and Review (CCAR) stress tests that the Federal Reserve conducts annually on the largest, systemically important institutions.
  - Resolution plans aka **"living wills."**
  - **Strong capital requirements for banks, at an appropriate time after a considerable transition period**. The fact sheet does not say what constitutes a "considerable transition period", but a 1-2 year transition period (with the possibility of additional delay in order to avoid pro-cyclical effects if the economy is weak) seems likely.
- Taking steps to once again ensure strong supervision:
  - **Reduce the transition periods for applying safeguards to growing banks that are projected to exceed the $100 billion threshold.** Banks crossing the $100 billion threshold are allowed a transition time before being subject to stress tests. The administration wants these banks to be subject to stress tests immediately upon crossing the threshold. Supervisors would be mandated to make sure that banks that are growing and expected to cross the $100 billion threshold are preparing for the stress tests.
  - **Strengthen supervisory tools, including stress testing, to make sure banks can withstand high interest rates and other stresses.** This recommendation seems like a reference to the fact that stress tests have not included rising interest rate scenarios.
- Expanding long-term debt requirements to a broader range of banks. This seems to refer to **Total Loss Absorbing Capital.**
- Ensuring that the costs of **replenishing the Deposit Insurance Fund (DIF)** after recent bank failures are not borne solely by community banks. The Federal Deposit Insurance Corporation (FDIC) has discretion to place more burden on big banks to replenish the DIF.

Please click here to access the White House's Fact Sheet.

STIFEL

Next Steps– The next steps that banks and bank investors should anticipate include:

- **Banking regulators are likely to release formal regulatory proposals reflecting the recommendations in the fact sheet sometime in the coming months.** These proposals could be finalized (following a public comment period) in early- to mid-2024.
- **The FDIC announced that on May 1 it will release a report with policy options for Congress to consider regarding deposit insurance.** Congress would have to approve any changes in the program. Based on the current situation in the banking system (i.e., the recent panic seeming to have subsided), it is unlikely that Congress will act quickly in making any changes in deposit insurance.
- Related to the regulatory changes recommended in the fact sheet, **banking regulators could consider changes in bank merger rules.** Regulators could formalize guidelines regarding "financial stability" considerations that would likely be also targeted at banks with assets between $100 billion and $250 billion. However, regulators could also change their guidelines regarding "convenience and needs" considerations (e.g., maintaining bank branches in certain markets and Community Reinvestment Act assessments) and "safety and soundness" considerations. Banking regulators could issue proposals on changes in bank merger rules later this year with a target of finishing them in mid-2024.

Subscribe To Our Podcast!

We recently created a Potomac Perspective podcast. To access a broader discussion of these and other topics, listen and download the latest episode of our Potomac Perspective podcast.