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Will Paige

Fresh regulation could prevent fatal mismanagement at failed banks from happening again

Article

The news: In a damning postmortem of recent bank collapses, leaders from failed lenders **Silicon Valley Bank** and **Signature Bank** were lambasted by lawmakers at a Senate Banking Committee hearing who accused them of greed, fatal mismanagement, and repeatedly ignoring warnings from regulators.

Senators also claimed that regulatory rollbacks emboldened banking chiefs to take more risks and criticized watchdogs for being asleep at the wheel.

Bank chiefs play the blame game: Executives from the toppled lenders were quick to shift responsibility away from themselves.

- **Former SVB CEO Gregory Becker** blamed "unprecedented events" for his bank's demise including social media-fueled panic online, the quick pace of interest rate hikes, and the Fed's mixed messages on rate increases.
- **Signature Bank's previous chair Scott Shay** stressed that weak cryptocurrency regulation contributed to problems and claimed the bank was in a strong position to overcome difficulties, had the Federal Deposit Insurance Corp (FDIC) not intervened.

Who's really at fault? The biggest factor in the mid-sized lenders' collapses was woeful mismanagement. Banking heads failed to address glaring risks and made serious missteps that left them vulnerable to the slumping market confidence which eventually sunk them.

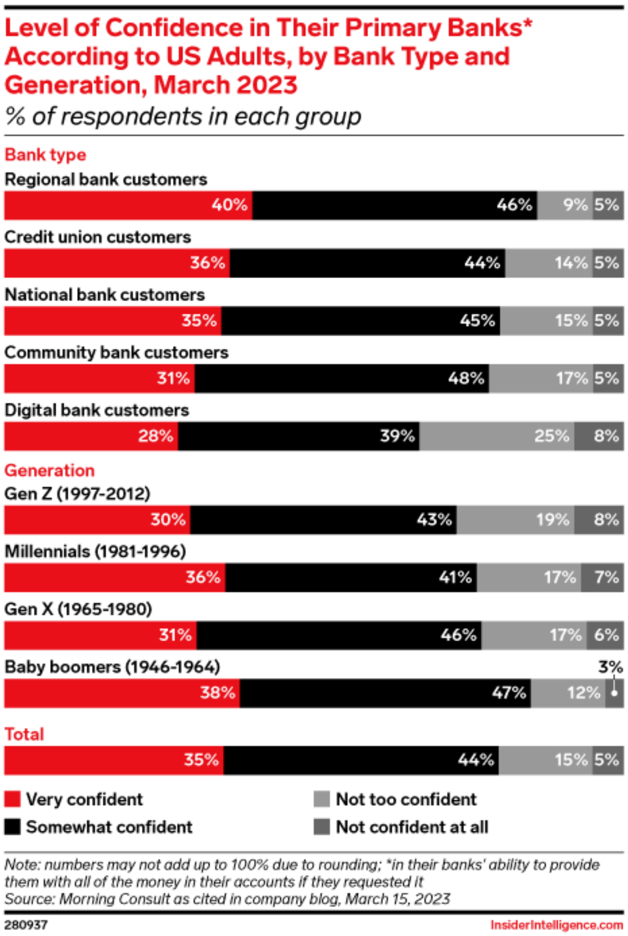
Regulatory changes look likely: There was an element of political theater to the hearing as Senators sought to offload long-held voter frustrations at the perceived recklessness of some banking executives. But that highlights **politicians' and the public's desire for more accountability from Wall Street** and anger at how executives were still trying to cash out when their banks were on the verge of failure. Watchdogs are also under pressure as concerns build that the current system is incapable of preventing similar collapses in the future.

That should pave the way for more hands-on oversight. Federal Reserve Vice Chair for Supervision Michael Barr urged new rules, including:

- **Forcing banks to hold more capital** to guard against future risks.
- **Stronger oversight of executives' pay** that directly corresponds to managing banks' risks, rather than just generating profits.

- **Revising banks' liquidity cushions.** Regulators will scrutinize lenders' uninsured deposits more and could introduce new liquidity requirements.

Fresh regulations could take a long time to be finalized. Until then, expect regulators to punish rule breaking with financial penalties to prevent other blundering executives from toppling banks.



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