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US regulators threaten to break up big banks that repeatedly commit financial violations

Article

The news: The acting head of The Office of the Comptroller of the Currency (OCC), Michael Hsu, said the agency is refining its process for stepping in when major banks get too big to manage. The framework includes the potential for regulators to break up big banks that become too complex to operate efficiently, per Banking Dive.

Four-step framework: Hsu explained that not all large banks are subject to a breakup. But those banks that can't effectively run their operations with smart senior leadership and a sound risk plan could face actions like divestitures and cuts in operations to reduce complexity. When a bank commits recurring violations, it will face a four-step framework designed to address the issues.

1. The bank will first be put on notice via a nonpublic supervisory finding.
2. If the issue isn't properly addressed, it will be escalated into a public enforcement action. This could result in penalties such as a consent order or a civil money penalty.
3. If still not resolved, the bank will be put under a growth restriction.
4. The final level is a divestiture or breakup of the bank.

Hsu said the OCC is looking to fine-tune the steps of the process to provide transparency and make it easier for banks to determine whether they're in danger of escalating through the steps. Already, globally systemic banks are required to identify pieces of their businesses that can be sold quickly if necessary as part of the living will process.

The OCC's process puts substance behind the words of the head of the Consumer Financial Protection Bureau (CFPB), Rohit Chopra, who said regulators should take stronger actions against banks that repeatedly violate financial regulations. He said those actions could include stripping them of their licenses.

Explicit but not new: The OCC's framework signals that regulators are now more willing to put their money where their mouth is. But banks and consumers aren't seeing this process for the first time. Some of Wells Fargo's recent interactions with the Fed mirror the latter steps of the framework.

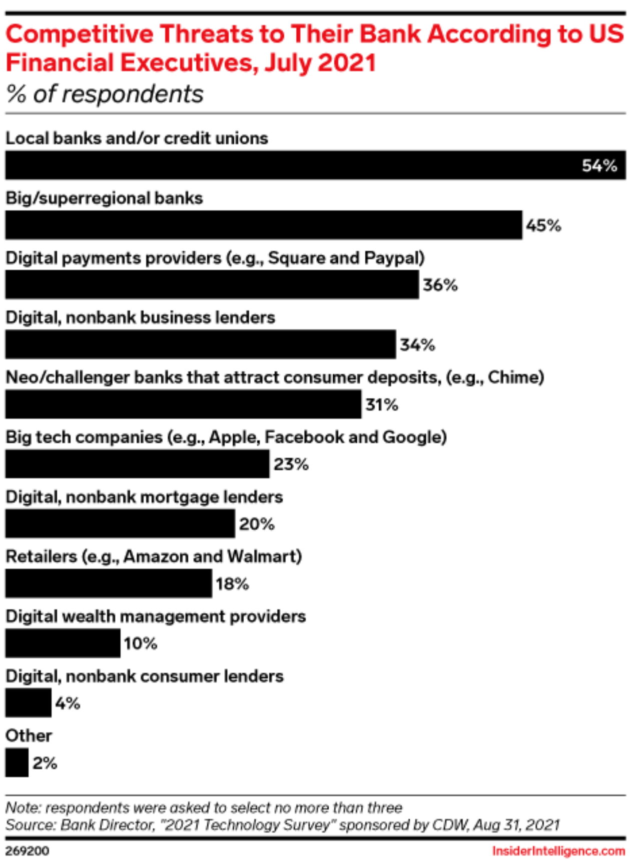
- After a fake account scandal sent shockwaves through the industry, the Fed placed an asset cap on Wells Fargo in 2018. At the time, there was no clear end in sight for the restriction. After just two years, it was estimated that the bank lost out on over $4 billion in profits.
- At the very end of 2022, the Fed required Wells Fargo to pay nearly $4 billion in fines and redress payments for a laundry list of violations, including incorrectly assessing fees and

interest, misapplying loan payments, and charging surprise overdraft fees. The $1.7 billion fine was the largest ever assessed by the CFPB.

- Less than two weeks into 2023, Wells Fargo said it would step back from the mortgage market to focus on existing clients while also promoting minority homeownership. The bank said its mortgage operations were too complex to handle and that it would direct its efforts to rebuilding customer trust.

The big takeaway: With competition intensifying within the banking industry, banks, neobanks, and fintechs are doing anything they can to impress new customers and grow their businesses. But with that comes added complexity and risk. Regulators are increasing their scrutiny of all types of financial institutions to ensure fairness and protect consumers from harm.

Wells Fargo was able to position stepping away from one of its main businesses as a decision to improve its operations. But Wells Fargo and other big banks must be aware that the OCC means business, and that violations should be rectified immediately to avoid the reputation-destroying fallout of a one-sided breakup.



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