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Jenna McNamee

US banks wrestle with the threat of new rules that will drastically increase capital requirements

Article

The news: **Financial regulators are preparing new rules for US banks that could increase capital requirements up to 20%,** according to Reuters. Here's how some of the biggest banks are responding, per Bloomberg.

Global harmony: The rules come from a global push from the Basel Committee of banking regulators to unify banking regulations.

- **Banks with assets of at least $100 billion will need to bulk up their capital reserves** to meet new requirements. For some banks, that means an increase of up to 20%.
- The exact amount will vary from bank to bank, but it will likely be a big change for many banks. Currently, only banks with assets of $250 billion or more face capital requirements.
- The rules were prompted by the 2008 global financial crisis and are due to come into effect in 2025. But US financial regulators are likely to begin rolling out their proposals by the end of the month.

Though the requirements pertain to banks with assets of $100 billion or more, Fed chair Michael Barr added that the agency was looking at new requirements for some larger regional banks as well.

Baddest for the biggest: The new requirements will have the largest impact on banks that rely on fees and trading for income, like **Morgan Stanley**. Some of the largest US banks shared how the changes are likely to impact them.

- **Bank of America** CEO Brian Moynihan debunked the misunderstanding that increased reserves would allow the bank to extend more loans. The reserves must be riskless, which means they can only be held in cash or Treasury securities. Moynihan estimated that a 100 basis point increase in reserve requirements would stunt the bank's ability to extend $150 billion worth of loans.
- **JPMorgan** said it would proactively prepare to comply with the new capital requirements, but that it would continue to push back on proposed changes.
- **Citi** indicated that it would begin setting aside modest additional reserves, and would only increase those reserves when it's absolutely necessary. The bank is waiting to see the differences between the Basel requirements and what the Fed proposes.

Our take: The rule changes aren't directly related to the recent US banking turmoil, but it likely intensified the Fed's scrutiny of new requirements for all banks.

- The increased capital requirements will ultimately have an impact on banks' bottom lines. They will affect banks' ability to extend loans at the same volume. Already, banks have set aside large amounts of money for potential loan defaults which are expected to accelerate during the economic downturn.
- Though the extra cushion will help banks weather the downturn or any other unexpected crises, it might not be enough to reassure rattled consumers. Even when regional banks touted their well-capitalized statuses after the collapses of **Silicon Valley Bank** and **First Republic Bank**, fear continued to spread through social media channels and battered regional bank stock prices.

US Consumers Who Have Opened New Loan Accounts, by Generation, Dec 2021

% of respondents in each group

	Gen Z	Millennials	Bridge millennials	Gen X	Baby boomers & seniors
Student loan	29.7%	25.1%	20.2%	10.3%	3.9%
Auto loan	17.6%	36.1%	36.0%	37.8%	26.1%
Mortgage	11.1%	33.7%	39.2%	46.1%	30.7%
Personal loan	10.7%	24.7%	23.1%	15.7%	10.5%
Small business loan	6.9%	9.2%	6.4%	1.9%	0.9%
Home equity loan	6.1%	11.4%	8.9%	8.0%	7.0%
No loan accounts	49.5%	30.3%	29.1%	32.0%	47.5%

Note: in the past year
Source: PYMNTS in collaboration with Finicity, "Account Opening And Loan Servicing In The Digital Environment," Feb 15, 2022

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