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Tyler Van Dyke

Federal Reserve wants to avoid another SVB moment

Article

The news: The Federal Reserve really doesn't want any more **Silicon Valley Bank**-style busts.

Vice chair for supervision **Michael Barr** proposed a "sweeping" overhaul of capital requirements and stress tests this week, per The New York Times, changes that he said would close regulatory gaps and ensure a safer financial system.

Here's what would change:

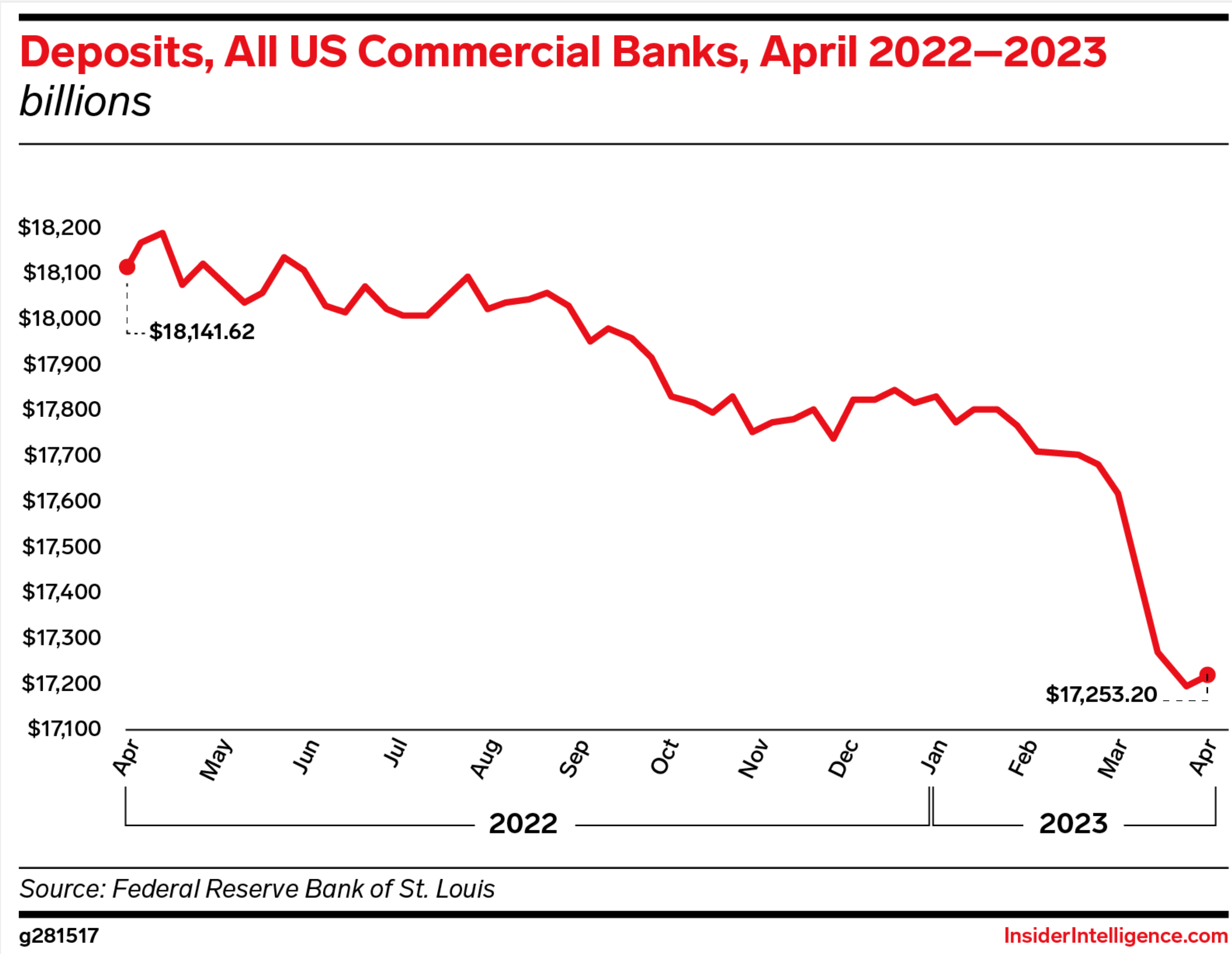
- The largest banks would need to increase their holdings of capital by as much as two percentage points.
- Banks wouldn't be allowed to use internal credit-risk models and would have to model risks at a trading desk level, as opposed to a firm-wide level.
- Banks with assets of **$100 billion** or more would have to account for unrealized losses on "available for sale" assets in their capital allocations.

No SVB redux: This is the Fed's first attempt at atonement after acknowledging the role it played leading up to the collapse of SVB and a string of other regional banks.

- SVB didn't have to take any of its unrealized losses on Treasurys into consideration, which was one of the main reasons venture capital firms told their startups to pull all of their money out of the bank.
- But it would have had to under the Fed's proposal. The new $100 billion asset threshold (down from the current $700 billion) **extends that reporting requirement to 30 more banks**.

What this means: Banks are expectedly bristling at the proposal. Lobby groups argued the rule change "will lead to higher borrowing costs and fewer loans for consumers and businesses," per the Financial Services Forum.

- Banks are **already tightening their lending standards** for consumers and businesses alike. Revolving consumer credit growth slowed from 13.2% annualized in May to 8.2% in June, per the Fed's most recent consumer credit release—and **nonrevolving credit contracted**.
- Most of these fears are likely overblown. Getting these rules approved could take years, and lawmakers and banking stakeholders will have plenty of opportunities to push back.
- By the time this proposal is finalized, the Fed's rate-hiking campaign may be well behind us—and those unrealized losses will likely be much less of a reporting headache than they would be today.



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