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Vice Chair Barr Speaks on Capital Endgame Proposal

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On Monday, Michael Barr, the Federal Reserve Board's ("FRB") Vice Chair for Supervision, delivered remarks to the American Bankers Association Annual Convention entitled Capital Supports Lending regarding the Basel III Endgame Proposal (which we discussed this summer here) issued jointly by the FRB, Office of the Comptroller of the Currency, and his views on why the benefits of the proposal outweigh the costs.

In his remarks, Vice Chair Barr noted "[m]ost of the banks represented in this room today—and the vast majority of banks in the country—would not be subject to the Board's recent 'endgame' proposal on bank capital. The proposal affects only the very largest banks." Vice Chair Barr also noted that the proposal remains open for comment until the end of November, and since the FRB "has just begun to receive comments on the proposed rules, I cannot say how those rules will evolve, but I can try to provide more background on why I believe the benefits of the proposal would outweigh the costs."

He invited commenters to provide more data on the costs and benefits of the rule, but proffered that the proposal's increase in capital for lending activities is "limited," and stated it "might be expected to increase the cost to banks for funding the average lending portfolio by up to 3 basis points—0.03 percentage points." The Bank Policy Institute at its stopbaselendgame.com website disagrees and asserts that the increased costs of lending in the proposal would be higher.

Vice Chair Barr went on in his remarks to state that notwithstanding a "small" increase in capital costs is outweighed by the costs of a financial crisis. He stated that "[r]esearch suggests the costs of a financial crisis are sizable ... [as] the cumulative loss in economic activity is consistently estimated to lie above 20 percent of annual GDP—and in some estimates up to 100 percent of GDP."

Vice Chair Barr concluded his remarks for another call for comments and additional data, noting "[w]e have already heard concerns that the proposed risk-based capital treatment for mortgage lending, tax credit investments, trading activities, and activities that generate fee-based income might overestimate the risk of these activities. We welcome all comments that provide the agencies with additional data and perspectives to help ensure the rules accurately reflect risk."