How Birmingham bankers feel about raising capital regs to avoid a crisis

In President Donald Trump’s first days in office, the financial industry has been swelling with optimism over the prospect of reduced regulations and a better economy. But skeptics are still looking at how to avoid a financial crisis like the country saw in the 2000s, the crisis that brought about Dodd-Frank and the regulations these bankers would like to see go away.

While bankers are hopeful to see reduced regulations and the rolling back of Dodd-Frank, a new study by an Auburn professor suggests that raising capital requirements for banks could be the answer to preventing future financial crises.

While many in Birmingham's bank scene say it would make things safer, they also warn of potential consequences.

Auburn University Finance Professor James Barth and George Mason University Senior Research Fellow Stephen Miller examined banking laws and banking crises over more than 100 years, looking at whether simply increasing the bank capital requirement from the current 4 percent to 15 percent would bring greater stability to the banking industry in the years ahead.

Barth said increased capital requirements might hold the key to avoiding future crises.

“We believe the best way to create a more stable and safer banking industry is to require the owners of banks to put more of their own capital at risk,” Barth said. “That is to say that if a bank has $100 in assets, we’re basically proposing that the owners should have $15 of their own money at risk. There’s more skin in the game.”

Barth’s study found that the benefits of the increase would exceed the costs, but Birmingham bank experts have mixed opinions on the idea.

Oakworth Capital Bank's John Norris said increasing capital requirements likely would make for a safer system, but he doesn't think the same standards should apply to all banks.
“I am all for raising capital requirements for our money center banks,” he said. “If the average person only knew the gap between insured deposits and what the FDIC actually has to cover the failure of even one of them, they would be shocked. I didn’t even mention uninsured deposits.”

Norris said bankers would likely complain about requirements to hold more capital, but he said doing so would result in a safer banking system. But with those increased capital burdens would come consequences.

Many bankers have already cited increased capital regulations in the wake of the most recent financial crisis as a hurdle to lending. Norris said further increases would have similar results.

“If a bank has to maintain a higher amount of capital, it will have less money with which to make loans,” said Oakworth Capital Bank’s John Norris. “Obviously, that could cut into revenue, and, therefore, profits. That or banks might try to charge a little more for their services to make up the perceived shortfall. Either way, there is a cost to the consumer.”

Attorney Larry Childs, who heads up Waller’s Birmingham office, does not think Barth’s assessment is the answer.

“Current bank capital requirements should be more than adequate to provide cushions against a downturn in the economy,” he said. “Imposing even higher capital requirements will further squeeze bank’s profits and make banks less stable, rather than more stable. This is a classic case of the government attempting to fight the last war, instead of preparing for the challenges that are reasonably foreseeable in the years ahead.”

Childs said he believes the greatest present risk to the banking system is that government regulators continue to impose additional cost burdens on banks.

“These burdens make banks less profitable, rather than more profitable, and create additional impediments to market entry, which result in less choices, rather than more choices for consumers,” Childs said.

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