

Fed Official Criticizes Bank Risk Taking

WASHINGTON (5/10/13) – Federal Reserve Bank of St. Louis President Jim Bullard knocked "too big to fail" banks pretty hard in a recent interview in *American Banker*, criticizing a "Las Vegas" attitude toward using short-term funds to take big risks and then sticking it to the taxpayer if losses pile up.

Bullard suggested a novel way to control some bank bad behavior: Taxing their short-term borrowings (*American Banker* May 8).

"You could change the tax code to get more reliance on equity finance and less reliance on debt," the *Banker* quoted him as saying. He added, this change would prevent large firms from taking risks with short-term funds, only to come looking for government bailouts when those risks don't pan out.

Overall, he said, the U.S. does not need large banks: They are given unfair subsidies, are difficult to manage, and are not vital to economic growth.

Large, multinational businesses have their own means of accessing the capital they need, and rarely go to banks for back up, he said. Smaller, more nimble institutions could perform many of the same tasks that large banks take on, with far less risk to taxpayers, Bullard added.

Federal Reserve Governor Daniel Tarullo also addressed too-big-to-fail firms in remarks made last week. While much work has been done to address big banks, regulators "would do the American public a fundamental disservice were we to declare victory without tackling the structural weaknesses of short-term wholesale funding markets, both in general and as they affect the too-big-to-fail problem," he said.

"Relatively little has been done to change the structure of wholesale funding markets so as to make them less susceptible to damaging runs," Tarullo said. One way to address these short-term wholesale issues is requiring banks to hold additional capital, ending the need for short-term borrowing.

Too-big-to-fail banks, and how to limit their outsized impact on the economy, continues to be a frequent topic of discussion in Washington, as various regulatory and legislative fixes are discussed.

(*News Now*, 5/10/13)