Capital and U.S. Economy

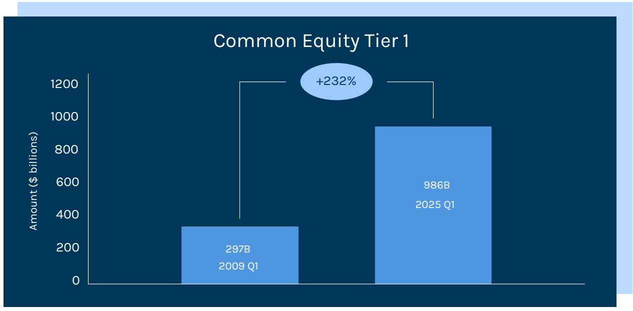
Rising capital requirements for large U.S. banks, which are higher than those in other countries, are hindering American economic growth and competitiveness.

What is Capital?

Capital, the difference between a bank's assets and liabilities, acts as a cushion to absorb losses. It is a key requirement to ensure financial stability. The largest U.S. banks adhere to the highest global standards, including liquidity, leverage, supervision, and resolution planning.

Source of Strength

The eight U.S.-based Global Systemically Important Banks, or GSIBs, have greatly increased both the quality and quantity of their capital. These banks have acted as a source of strength, including during the COVID-19 pandemic and the 2023 banking turmoil by facilitating credit and providing billions in deposits to First Republic Bank to help stem contagion.



Capital at Largest Banks Has Tripled

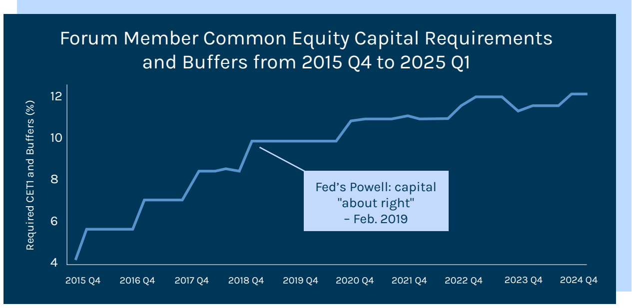
Source: FR Y-9C data, https://www.ffiec.gov/npw/FinancialReport/FinancialDataDownload

"More than a decade of stress tests and real-world events have shown that these banks are resilient to very large macroeconomic shocks."

Federal Reserve Governor Christopher Waller, June 2023

Capital Growth is Unrelated to Risk

Even though these banks have shown they can support the economy in the face of significant headwinds, U.S. capital requirements continue to rise due to factors like the Federal Reserve's balance sheet expansion, not financial risk. Since 2020, required capital for U.S. GSIBs has increased 18 percent, contradicting bipartisan officials' assessments that existing capital levels at the time supported financial stability and the economy.



Capital Requirements Increasing

Source: FRB Annual Large Bank Capital Requirements, https://www.federalreserve.gov/supervisionreg/large-bank-capital-requirements.htm

The Cost of Capital

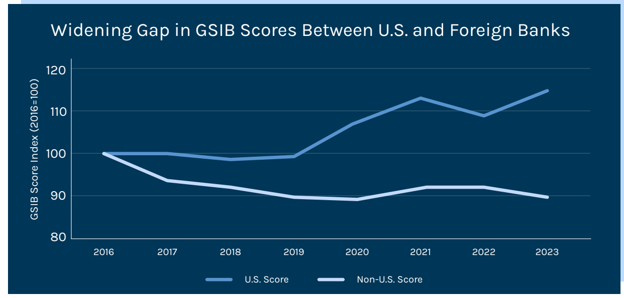
Capital is not free. Higher requirements increase bank funding costs, leading to higher interest rates. This results in less and more expensive borrowing by companies and households, reducing investment and growth across the economy. Research from the Peterson Institute for International Economics estimates that raising capital requirements by two percentage points results in a cost to the U.S. economy of roughly $1 trillion over 30 years.

"Raising capital requirements also increases the cost of, and reduces access to, credit."

Federal Reserve Chair Jerome Powell, July 2023

Supersizing U.S. Requirements

The U.S. has implemented higher capital requirements than foreign jurisdictions. In one clear example, U.S. regulators agreed to a GSIB capital surcharge requirement for all global banks, but increased the requirement for U.S. banks. This puts the American economy, consumers, and businesses at a competitive disadvantage due to higher borrowing and other banking costs, which filter throughout the economy.



U.S. GSIB Scores Climb, Foreign Bank Scores Hold Steady

M1 source: BIS disclosure; most recent data is year-end 2023
https://www.bis.org/bcbs/gsib/index.htm#

Need for Change

Now is the time to adjust capital requirements to ensure the American economy can continue to grow, create jobs, and remain competitive on the global stage. All Americans would benefit, including:

Families: Households seeking to borrow money to purchase their first home or buy a car to get to work, could see lower interest rates, reducing their purchase costs.

Small businesses: Business owners could pay lower interest rates for loans and potentially see improved opportunities to borrow. That would improve their ability to expand and hire and lower their costs, leading to steadier prices for consumers and others.

Savers: Americans saving for retirement and investors in college funds and other long-term savings would likely see decreased costs and improved returns as investment companies such as those offering mutual funds and pension plans face lower borrowing costs.

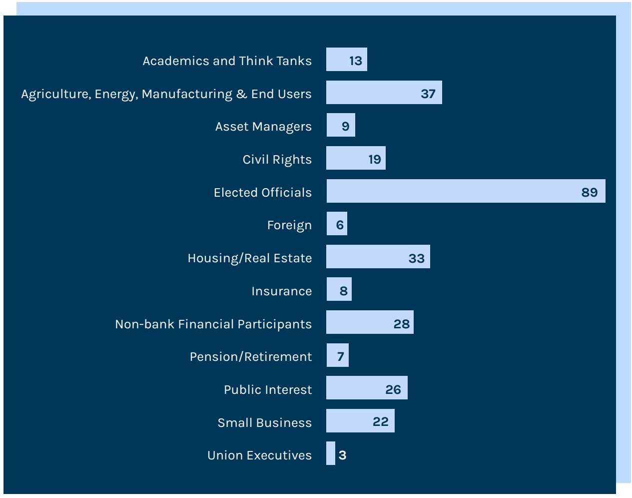
Governments and taxpayers: States and local governments could face lower costs when issuing municipal securities, which are used to fund infrastructure projects such as the building and upkeep of roads, schools, and other services.

"I think the banking system is well capitalized—perhaps overcapitalized."

Treasury Secretary Scott Bessent, January 2025

Americans Can't Afford Higher Capital

After regulators in 2023 issued a proposal to drastically raise capital requirements, people from throughout the U.S., from small-town mayors to major utilities to housing advocates, raised significant concerns with rising capital requirements. About 86 percent of the hundreds of entities who opposed or expressed strong concern were from outside the banking sector.



Source: Latham & Watkins, The Basel III Endgame Proposal: Public Comments Snapshots, 2023
https://www.lw.com/admin/upload/SiteAttachments/the-basel-III-endgame-proposal-public-comments-snapshots.pdf

The Bottom Line: To ensure the American economy continues to grow, create jobs, and remain competitive globally, it is crucial to adjust capital requirements. Refining these requirements would benefit families, businesses, savers, and governments by reducing borrowing costs while maintaining financial stability.