

**Statement of
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on
The Changing Role of the FDIC
before the
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and
Bailouts of Public and Private Programs
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Chairman McHenry, Ranking Member Quigley, and members of the Subcommittee, thank you for the opportunity to testify today on the changing role of the FDIC. The past five years, marking my tenure as FDIC Chairman, have been among the most eventful for U.S. financial policy since the 1930s. During this time, our nation has suffered its most serious financial crisis and economic downturn since the Great Depression, the aftereffects of which will be felt for years to come.

In my testimony today, I would like to focus on two very important lessons learned from the crisis. First, in order to restore discipline in the marketplace, large, complex banks and other financial companies must – without exception – be allowed to fail if they become nonviable. My testimony will review the responses taken to the financial difficulties of systemically-important financial institutions (SIFIs) in the crisis, and how the absence of effective resolution tools led directly to government bailouts. While these bailouts were necessary under the circumstances we faced at the time, they brought about serious adverse consequences for our financial system.

The second lesson involves the dangers of excessive debt and leverage. Rising financial leverage in the years leading up to the crisis was encouraged not only by misaligned incentives that promoted risk-taking within financial institutions, but also by a regulatory process that was overly permissive toward leverage and a tax code that has created a long-time preference for debt over equity as a means to finance economic activity. It is important that Congress and the regulators understand and act on these lessons learned if we are to avoid a costly recurrence of the recent financial crisis in the not-too-distant future.

The Problem of "Too Big to Fail"

The problem of financial institutions that are Too Big to Fail has been with us for decades. But the bailouts of several large banks and nonbank financial companies during and after the financial crisis of 2008 removed all doubt that Too Big to Fail was a central problem facing our financial system.

The crisis of 2008 centered on the so-called shadow banking system – a network of large-bank affiliates, special-purpose vehicles, and nonbank financial companies that existed largely outside of the prudential supervision and capital requirements that apply to federally-insured depository institutions in the U.S. In addition, the shadow banking system also fell largely outside of the FDIC's authority to resolve failed insured financial institutions through receivership.

Several large, complex U.S. financial companies at the center of the 2008 crisis could not be wound down in an orderly manner when they became nonviable. Major segments of their operations were subject to the commercial bankruptcy code, as opposed to bank receivership laws. The size and complexity of these institutions, and the inadequacy of the bankruptcy process as a means to avoid systemic disruption after their failure, rendered these companies Too Big to Fail.

In the heat of the crisis, policymakers frequently resorted to bailouts instead of letting these firms collapse into bankruptcy. The fear was that the losses generated in a failure would cascade through the financial system, freezing financial markets and stopping the economy in its tracks. The worst fears of policymakers were realized when Lehman Brothers – a large, complex nonbank financial company – filed for bankruptcy on September 15, 2008.

The long-term outcome for Lehman creditors clearly demonstrates the shortcomings of bankruptcy as a means to resolve failed financial companies. The firm managing the Lehman bankruptcy reports that more than \$75 billion in value was destroyed by the bankruptcy process itself, including tens of billions of dollars from the inability to roll over valuable derivatives contracts. More than two-and-a-half years after Lehman's failure, the process has cost over \$1.2 billion in legal and other professional fees, and many creditors still don't know what their claims will be worth.

Anticipating the complications of this process, counterparties across the financial system reacted to the Lehman failure by running for the safety of cash and other government obligations. Subsequent days and weeks saw the collapse of interbank lending and commercial paper issuance, and a near complete disintermediation of the shadow banking system, prompting emergency intervention on the part of governments around the world to forestall an even worse economic catastrophe.

Limits on the FDIC's Ability to Respond to the Crisis

The U.S. government provided financial assistance to the financial sector during the financial crisis on a massive scale and in a variety of forms. The Federal Reserve expanded lending through the discount window, and introduced several special programs to provide liquidity to a variety of important financial markets and institutions. Under the Emergency Economic Stabilization Act (EESA) of 2008, Congress authorized the Treasury to purchase or insure up to \$700 billion in troubled assets, of which some \$300 billion was used to provide equity investments in large banking organizations. At the height of the crisis, the Federal Reserve Board, the U.S. Treasury Department, and the FDIC – in consultation with the President – invoked the so-called "systemic risk"

authorities, which allowed us to provide emergency assistance to individual institutions on three occasions and to temporarily extend the FDIC guarantee to liabilities beyond insured deposits in order to stabilize the funding base of banks and their holding companies. In all, the announced capacity of Federal Reserve, FDIC and Treasury programs to support the financial sector during the crisis exceeded \$14 trillion.¹

The absence of FDIC resolution powers for bank holding companies and their nonbank affiliates during the crisis posed insurmountable hurdles to our ability to respond to the financial difficulties of these large banking organizations through our traditional receivership process. While each of these bank holding companies had FDIC-insured depository institutions as subsidiaries, the FDIC's receivership powers extended only to the insured institutions themselves. Had the FDIC been appointed receiver for these bank subsidiaries, the result surely would have been to trigger the failure of the holding company as well – which would have fallen under the jurisdiction of a Lehman-like commercial bankruptcy, and not an FDIC-managed receivership. Since the non-bank affiliates were not insured depository institutions, the FDIC had very little advance information about their structure, activities, and counterparty exposures, making it difficult to know what effect the failure of the holding company might have on other financial institutions and the financial markets. Under those limitations, if any of those institutions had been allowed to fail, the result could well have been a significant widening of the financial crisis. This was not a risk we were willing to take at the time.

Lessons from the Bailouts

The crisis of 2008 illustrated the overwhelming pressure that develops to provide government bailouts when information is sketchy, fear is the prevailing market sentiment, and there is no clear sense of how bad conditions might get before the system begins to stabilize. The FDIC responded to the problems of large banking organizations in the crisis the only way it could under the circumstances. With the limited information and resolution powers we had at the time, allowing SIFIs to fail would have been irresponsible.

But bailouts of this sort have a number of serious adverse consequences for the financial industry and our economy. They inhibit the restructuring of troubled financial companies and the recognition of losses that are necessary for a prompt recovery from the crisis. Unless large financial institutions and other companies are allowed to fail, our economy cannot correct the mistakes in strategy or risk management that led to the problem, and scarce economic resources will continue to be misallocated. Some 370 FDIC-insured institutions have failed during my tenure as FDIC Chairman. In every case, insured depositors have been completely protected, but uninsured depositors, unsecured creditors and equity holders have been exposed to losses and management has been replaced.

This is how capitalism is supposed to work, as failed companies give way to more successful companies, their liabilities are restructured, and their assets are eventually returned to their highest and best use under new management in the private sector. But our previous inability to resolve SIFIs in a crisis made them exempt from the normal

discipline of the marketplace that applies to smaller banks and practically every other private company.

Bailouts are inherently unfair to the vast majority of institutions that are not Too Big to Fail. They violate the fundamental principles of limited government on which our free-enterprise system is founded. This has the perverse effect of undermining trust in governmental functions that most would agree **are** necessary and appropriate. This situation can only be regarded as a new and dangerous form of state capitalism, where the market assumes large, complex, and powerful financial companies are in line to receive generous government subsidies in times of financial distress. Unless reversed, this policy can be expected to result in more concentration of market power in the hands of the largest institutions, more complexity in financial structures and relationships, more risk-taking at the expense of the public, and, in due time, another financial crisis.

The dilemmas we faced in responding to the crisis only increased our determination to press for a more robust and more effective SIFI resolution framework as the centerpiece of the financial reform legislation. We were early advocates for a resolution model based on the receivership authority the FDIC has used to resolve thousands of institutions over the years. We proposed that SIFIs be required to develop their own liquidation plans that would demonstrate that they could be broken apart and sold in an orderly manner. We also proposed that they be made subject to greater oversight, higher capital and liquidity requirements, and other prudential safeguards, and that many of their off-balance-sheet assets and conduits be counted and capitalized on the balance sheet. All of these proposals were ultimately enacted in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act).

How the Dodd-Frank Reforms Will End Too Big to Fail

The new SIFI resolution framework will designate large bank holding companies and certain systemically-important non-bank financial companies as SIFIs, and subject these companies to several new regulatory requirements. Being designated as a SIFI will in no way confer a competitive advantage by anointing an institution as Too Big to Fail. SIFIs will be subject to heightened supervisory oversight by the Federal Reserve and higher capital requirements. They will be required to maintain resolution plans that show how they could be wound down in an orderly manner – without a bailout – in a crisis. Based on these resolution plans, they could be required to restructure their operations, or even divest, if necessary to demonstrate that they are resolvable. The information available to the FDIC in planning to resolve a failed SIFI also will be enhanced by our new backup powers that apply to SIFIs that are deemed to be "not generally in sound condition." In light of these significant regulatory requirements, the FDIC has detected absolutely no interest on the part of any financial institution in being named a SIFI. Indeed, many institutions are vigorously lobbying against such a designation.

The reforms create an Orderly Liquidation Authority (OLA) that gives the FDIC receivership-like powers over bank holding companies and non-bank SIFIs if they cannot be resolved in an orderly manner through bankruptcy. While some have called

the OLA a bailout mechanism and others a fire sale, in fact it is neither. The OLA strictly prohibits bailouts. It is better suited than bankruptcy to resolve claims against failed financial institutions in a prompt and orderly manner. It is a transparent process that operates under fixed rules that prohibit bailouts or favoritism in administering the priority of claims.

Despite these advantages, there remains skepticism that the SIFIs can be resolved at all, given their size, interconnectedness, and international scope of operations. However, I believe that the adherents of this view vastly underestimate the benefits of advance resolution planning that will be afforded by the SIFI resolution plans, as well as the steady progress that is being made around the world to strengthen and harmonize resolution regimes and coordinate resolution activities across national boundaries.

The FDIC recently released a paper detailing how the filing of resolution plans, the ability to conduct advance planning, and other elements of the framework could have dramatically changed the outcome if they had been available in the case of Lehman Brothers.² The resolution plans will give regulators much more advance information about the structure, activities, and counterparty exposures of the SIFIs, including quarterly Credit Exposure Reports that provide detail on counterparty exposures of the subject institution and how its failure could affect other financial companies. The law also authorizes the FDIC and the Federal Reserve Board to require, if necessary, changes in the structure or activities of these institutions to ensure that they meet the standard of being resolvable in a crisis.

It cannot be emphasized enough that the ultimate effectiveness of the SIFI resolution framework will depend on the willingness of the FDIC and the Federal Reserve Board to use this authority and insist, if necessary, on organizational changes that better align business lines and legal entities well before a crisis occurs. Preventing bailouts in any future financial crisis will require that SIFI organizational structures be rationalized and simplified well before the onset of systemic financial distress.

Benefits of Reform to the Economy and the Banking Industry

There are a number of compelling reasons for well-run banks and thrift institutions to support the SIFI resolution framework under Dodd-Frank. First, as we have seen in the case of the recent crisis, well-run institutions have much to lose from the marked deterioration in credit performance, collateral values and loan demand that is typically associated with periods of severe financial instability. The Dodd-Frank reforms are needed to promote long-term financial stability and prevent this type of large-scale economic damage. But it is also important to recognize that the repeated bailouts provided to banks with serious deficiencies in strategy and risk management have had a significant adverse impact on the reputation and competitive position of the well-run companies that make up the vast majority of FDIC-insured institutions.

In an April 2010 Pew Research poll, just 22 percent of respondents rated banks and other financial institutions as having "a positive effect on the way things are going in this country."³ In a July 2010 poll by the Pew Center and the National Journal, some 74

percent of respondents felt that government economic policies since 2008 had helped large banks and financial institutions "a great deal" or "a fair amount."⁴ Only 27 percent felt these policies had helped the middle class and only 23 percent felt they had helped small business. A Rasmussen poll published earlier this year shows that fully 50 percent of Americans believe the federal government is more concerned with making Wall Street firms profitable than with making sure the U.S. financial system works well for all Americans.⁵

The *de facto* policy of Too Big to Fail also has conferred a clear competitive advantage on the largest banks. In February, Moody's reported that its ratings on the senior unsecured debt of eight large U.S. banking organizations received an average "uplift" of 2.2 ratings notches because of the expectation of future government support.⁶ Meanwhile, in the first quarter of this year, the average interest cost of funding earning assets for banks with more than \$100 billion in assets was about half the average for community banks with less than \$1 billion in assets. Indeed, I would also argue that well-managed large banks are disadvantaged. Too Big to Fail also narrows the funding advantage they would otherwise enjoy over weaker competitors. Fortunately, we already are making some progress in reducing big bank funding advantages. Moody's recently announced that it has placed a number of large banks on watch for downgrades based on Dodd-Frank's ban on bailouts and the FDIC's new resolution tools.⁷

In light of these considerations, it is reasonable to expect that well-run banks will come to support the Dodd-Frank reforms to the SIFI resolution framework as the foundation for a more stable financial system, and to correct reputational damage and competitive inequities that have resulted from the bailouts that took place in the crisis.

The Importance of Limiting Financial Leverage

The second major lesson of the crisis involves the dangers of excessive debt and leverage. The single most important element of a strong and stable banking system is its capital base. Capital is what allows an institution to absorb losses while maintaining the confidence of its counterparties and its capacity to lend. Supervisory processes will always lag innovation and risk-taking to some extent, and restrictions on activities can be difficult to define and enforce. Hard and fast objective capital standards, on the other hand, are easier for supervisors to enforce, and provide an additional cushion of loss absorbency when mistakes are made, as will inevitably be the case.

At the end of the U.S. banking crisis of the 1980s and early 1990s, Congress embarked on important banking system reforms just as we are doing today, including a commitment to promote a well-capitalized banking system. This included a Prompt Corrective Action system with mandated objective restrictions on bank balance sheet leverage. Also, the U.S. joined with other countries in implementing Basel I, a risk-based capital system based on fixed risk-weights. However, by the mid-1990s, regulators began to implement several fundamental changes in capital requirements that allowed for greater leverage.

One important regulatory change that facilitated the growth of leverage was the 1996 decision to permit Trust Preferred Securities, a form of subordinated debt, to meet a portion of a Bank Holding Company's tier 1 capital requirements. Since these securities are debt obligations, they cannot absorb losses while the issuer operates as a going concern. The use of Trust Preferred Securities in holding company capital allowed those organizations to operate with less loss absorbing capital than they had before. Our experience with these instruments during the crisis is that they impeded recapitalizations and that institutions relying on them were generally weaker and more likely to be engaged in high-risk activities. Other notable changes in regulatory capital requirements included the 1998 introduction of the Market Risk Rule that substantially lowered capital requirements for trading assets, and the 2001 Recourse Rule that lowered capital requirements for well-rated securitization exposures.

In 2004, the Basel Committee on Banking Supervision published its Basel II capital standard that included the so-called Advanced Approaches, which allow banks to use internal estimates of risk to determine their capital requirements. As other countries moved with dispatch to implement the Advanced Approaches, we saw risk-based capital requirements for banks in those countries dropping to levels that were often much lower than the old Basel I requirements. By contrast, adoption of the Advanced Approaches by large U.S. banks has been subject to significant restrictions, largely at the insistence of the FDIC. Without these restrictions, the capital of U.S. banks entering the crisis would have been much lower, and the cost of the crisis to the federal government and the broader economy would have been much higher. In the wake of the crisis, analysts are increasingly coming to recognize that the risk-based capital calculations produced under the Advanced Approaches are suspect.⁸

This progressive easing of regulatory requirements in the years leading up to the crisis allowed large bank holding companies and investment banks to significantly increase their leverage, benefitting those institutions in the pre-crisis years but ultimately leaving the U.S. economy worse off. From 2000 through 2003, the aggregate tangible equity to assets ratio of the ten largest U.S. bank holding companies ranged between 5.5 percent and 6 percent. But this ratio subsequently dropped below 5 percent through 2004 and 2005, below 4 percent in 2006, and to less than 3 percent by year-end 2007. Large U.S. investment banks followed a similar path. By year-end 2007, the aggregate tangible equity to assets ratio of the top five investment banks was just 2.84 percent.

By contrast, at the end of 2007, the ten largest FDIC-insured depository institutions, which faced higher leverage requirements under Prompt Corrective Action and were not allowed to include certain subordinated debt instruments in core capital, had tangible equity capital equal to 6.46 percent of assets.

The excessive leverage in the financial system entering the crisis, along with the need to repair balance sheets after the crisis, has forced a massive deleveraging of bank balance sheets. Loans and leases held by FDIC-insured institutions have declined by nearly \$750 billion from peak levels, while unused loan commitments have declined by \$2.7 trillion. This deleveraging illustrates the severe danger of insufficient financial

institution capital: it can deprive the broader economy of an important stabilizing source of credit during a downturn.

The economic and fiscal toll of financial crises on the real economy is invariably heavy. In the U.S., we lost almost nine million payroll jobs in the recession, suffered a one-third decline in house prices, and have seen over nine million foreclosures started in a four-year period. The decline in economic activity caused by the crisis has reduced both federal and state tax revenues, while plummeting home prices have affected property tax revenues. These fiscal costs of the financial crisis are of concern not just because of their bottom-line impact on government deficits, but because they reverberate back to the real economy. State and local governments, for example, have reduced services and cut over 500,000 jobs since year-end 2008.

The ramifications of over-reliance on financial leverage extend far beyond the regulation of financial institutions. Our tax system rewards debt financing of business relative to equity financing, encouraging some corporations to lever themselves imprudently, while the tax deductibility of mortgage interest encourages households to take on debt. The fiscal machinery of many governments around the world has relied on debt issuance as a way to deliver services without the immediate cost of paying for those services. A country that relies on borrowing to pay its current bills will eventually find that its economic health and competitiveness suffer.

Overreliance on leverage by financial institutions is a problem that clearly contributed to the financial crisis and its severity. Pre-crisis increases in leverage provided a kicker to financial institution growth and earnings, but the real economy bore much of the cost of the subsequent unraveling. As we consider regulatory change going forward, we should not repeat past mistakes by placing the interests of financial institution shareholders ahead of the protection of taxpayers, creditors, and the broader economy.

Ongoing Reforms to Place Responsible Limits on Financial Leverage

With Basel III and an important provision of the Dodd-Frank Act known as the Collins Amendment, we have an historic opportunity to put our banking and financial system on a firmer footing.

The Basel III International Capital Accord. Basel III both increases the numerical minimum capital ratios and strengthens the definitions of capital that can be used to meet the new minimums. First, it creates a new measure of regulatory capital, "tier 1 common equity," that is much closer to pure tangible common equity than the present tier 1 definition. Debt instruments such as Trust Preferred Securities will migrate over time out of tier 1 and into tier 2 capital status. Meeting minimum requirements for tier 1 common equity will provide a much more meaningful assurance of the bank's ability to absorb losses.

Basel III also requires capital for certain risks that the old rules did not adequately address. This includes capital for the risk of deterioration in the credit quality of over-the-counter (OTC) derivatives and additional capital to cover risks of trading assets.

Most notably, Basel III includes an international leverage ratio that, while it is numerically lower than the U.S. ratio, includes capital for some off-balance sheet exposures. The leverage ratio is an important tool to ensure a base of capital exists to cover losses that the risk-based rules may have erroneously categorized as minimal.

When I called for an international leverage ratio in Merida, Mexico in 2006, the reaction from regulators and bankers alike was dismissive. That such a ratio is now part of an international agreement reflects the recognition of the importance that hard and fast constraints on leverage have for financial stability.

Basel III is scheduled to be phased-in over a 5-year period that begins in 2013. We believe that large U.S. banks are well positioned to meet the Basel III capital standards far ahead of the Basel timeline and mostly with retained earnings.

The Collins Amendment. Another important landmark in capital regulation is Section 171 of the Dodd-Frank Act – the Collins Amendment. In my view, this is the single most important provision of the Act for strengthening the capital of the U.S. banking system and leveling the competitive playing field between large and small U.S. banks. Section 171 essentially says that risk-based and leverage capital requirements for large banks, bank holding companies, and nonbanks supervised by the Federal Reserve Board may not be lower than the capital requirements that apply to thousands of community banks nationwide. Without the Collins amendment, our current rules set a course to allow the risk-based capital requirements of our largest banks to be governed by the assumptions of bank management regarding the riskiness of their own exposures. In my view, such an approach would eventually create the conditions for another leverage-driven banking collapse.

On June 14, the FDIC Board did its part to correct this situation by approving an interagency final rule to implement the risk-based capital floors on the Advanced Approaches that are required by the Collins Amendment. This rule is a significant event that will safeguard the capital adequacy of our largest banks in the future, when the lessons of the crisis may no longer be fresh in our minds, and the banks' internal models once again are enticing us to believe that risks and needed capital are minimal.

The SIFI Surcharge. In addition, the Basel Committee is developing capital standards for the most systemically important institutions – the so-called "SIFI surcharge" – that would augment the standards announced in December 2010. As the *Wall Street Journal* recently wrote, "The simple yet powerful idea is to require banks that are playing with taxpayer money to hold more capital..."⁹ The extra risk posed to financial stability by the SIFIs strongly suggests the need for an additional buffer to absorb losses and reduce the likelihood of a recurrence of the crisis situation of 2008. The higher capital requirements associated with the SIFI surcharge will appropriately raise the cost of becoming a systemically-important institution, potentially creating incentives for institutions to become smaller and less complex, and reducing disparities in funding costs between large and small institutions.

Most large U.S. banks are expected to be able to meet Basel III standards, including any SIFI surcharge that might apply to them, in the near term and mostly through earnings. Still, some banks might need to take advantage of the phase-in period that would be part of any SIFI surcharge. Like all U.S. rulemakings, any proposed changes to capital requirements would be based on a notice and comment process that will provide institutions additional opportunity to express their views about the impact of the changes. But given the timeframes involved and current capital levels for U.S. banks, we believe that concerns about higher capital requirements curtailing lending and economic activity are misplaced. A growing body of research shows that higher capital requirements will have a relatively modest effect on the cost of credit and on economic activity, and will help to prevent the misallocation of scarce capital to wasteful purposes, as occurred in the case in the housing bubble.¹⁰

"Bail-in" Debt. The consensus of U.S. regulators is that the higher capital standards should be met solely with common equity. But even as global regulators are approaching consensus on the need for higher capital requirements and a SIFI surcharge, some are calling for at least part of the additional capital to take the form of debt that is convertible to equity when the institution encounters financial distress. While theoretically plausible, the concept of "bail-in" debt suffers from a number of practical problems. Conversion to equity in a stressed situation could trigger a run on the institution, downstream losses to holders of the debt, and potentially feed a crisis. Unfortunately, the current proposals to count bail-in capital against the new Basel III capital requirements have all-too-many parallels with the ill-fated experiment with Trust Preferred Securities at U.S. bank holding companies in the years leading up to the crisis. During the crisis, those securities did not absorb losses on a going concern basis, and served as an impediment to recapitalizations. We are very pleased that Congress saw fit to eliminate the prospective use of Trust Preferred Securities as part of capital requirements for banks and bank holding companies under Dodd-Frank.

If bail-in capital were implemented, it is not hard to envision crisis scenarios in which it is quickly consumed in the death spiral of a severely troubled institution, leaving regulators in the position of having to resolve the institution anyway. We should learn from our mistakes and avoid such devices in the future. That is why I strongly believe that the higher capital requirements under Basel III should be met with the same tangible common equity that Basel III requires for the new minimum standard for common equity capital.

Conclusion

Since its creation in 1933, the mission of the FDIC has been to promote financial stability and public confidence in banking through bank supervision, deposit insurance, and the orderly resolution of failed banking institutions. It is an organization that understands the true economic costs of financial instability. That is why the FDIC consistently takes the long view on regulatory matters, and strives to uphold consistent standards for consumer protection and safe and sound banking that will serve the long-term public interest.

I am proud to have had the opportunity to serve as FDIC Chairman for the last five eventful years. One of the most important lessons I have drawn from my experience has been the need for regulators to have the political courage to stand firm against weak practices and excessive risk-taking in the good times. It is during a period of prosperity that the seeds of crisis are sown. It is then that overwhelming pressure is placed on regulators to relax capital standards, to permit riskier loan products, and to allow higher concentrations of risk on the balance sheet and the movement of risky assets off the balance sheet, where they continue to pose a risk to stability.

In my experience over the past five years, I certainly regret that we did not have better information and better resolution tools in place at the height of the crisis to prevent the bailouts of a number of the nation's largest financial companies. The bailouts were made necessary by the lack of sufficient information and authorities, but also have had the effect of slowing the recovery, tipping the competitive balance in favor of large, complex institutions, tainting the reputation of all banks, and undermining public support for government functions that most would agree are necessary and appropriate. The FDIC's insistent support for a more robust SIFI resolution regime in the wake of the crisis speaks to our determination that this experience never be repeated.

Thank you for the opportunity to testify. I would be glad to take your questions.

¹ See: "A Year in Bank Supervision: 2008 and a Few of Its Lessons," *FDIC Supervisory Insights*, Vol. 6, Issue 1, Summer 2009, p.4. http://www.fdic.gov/regulations/examinations/supervisory/insights/sisum09/si_sum09.pdf.

² "The Orderly Liquidation of Lehman Brothers Holdings under the Dodd-Frank Act," *FDIC Quarterly*, Vol. 5, No. 2, 2011. <http://www.fdic.gov/regulations/reform/lehman.html>.

³ "Distrust, Discontent, Anger and Partisan Rancor: The People and Their Government," Pew Research Center for the People & the Press, April 18, 2010. <http://pewresearch.org/pubs/1569/trust-in-government-distrust-discontent-anger-partisan-rancor>.

⁴ "Government Economic Policies Seen as Boon for Banks and Big Business, Not Middle Class or Poor," Pew Research Center for the People & the Press, July 19, 2010. <http://pewresearch.org/pubs/1670/large-majorities-say-govt-stimulus-policies-mostly-helped-banks-financial-institutins-not-middle-class-or-poor>.

⁵ "50% Say Government Puts Wall Street Ahead of Main Street," Rasmussen Reports, January 18, 2011. http://www.rasmussenreports.com/public_content/business/general_business/january_2011/50_say_government_puts_wall_street_ahead_of_main_street.

⁶ "Supported Bank Debt Ratings at Risk of Downgrade Due to New Approaches to Bank Resolution," Moody's Investor Service Special Comment, February 14, 2011.

⁷ "Moody's Reviews Bank of America, Citi, Wells Fargo Supported Ratings for Downgrade," Moody's Investor Service Announcement, June 2, 2011.

⁸ "The Shrinking European Bank Sector," Barclay's Capital Equity Research, May 23, 2011.

⁹ "Tarullo's Capital Idea," Wall Street Journal, June 16, 2011.

¹⁰ See, for example: Admati, Anat, Peter M. DeMarzo, Martin R. Hellwig and Paul Pfleiderer. "Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Expensive." Stanford Graduate School of Business Research Paper No. 2065, March 2011. <http://www.gsb.stanford.edu/news/research/Admati.etal.html>.

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