AMERICA’S MUTUAL BANKS

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Mutual Alert

Gruenberg Set to Propose Long-term Sub Debt Rule for Large Banks

The Federal Deposit Insurance Corp. is gearing up to propose a new rule requiring large and foreign banks to hold long-term debt during a public meeting next Tuesday. The official FDIC announcement does not include a specific asset threshold, recent comments from current FDIC Chair Martin Gruenberg suggest the rule would apply to banks with $100 billion in assets.

Gruenberg has been on a campaign for big banks to have unsecured debt. At a recent event held at the Brookings Institution, Gruenberg brought attention to the need for banks with $100 billion in assets to have “buffers” to capitalize themselves during times of distress. He has also argued that requiring more banks to have long-term debt would lessen the cost burden on government-backed insurers when banks fail; and could have prevented the failure of Silicon Valley Bank from happening earlier this year.

The development of the longstanding proposal to create a loss buffer with sub debt for the FDIC may well trigger a review of the use of sub debt as a form of alternative capital. The more attention given to the ability of sub debt to absorb losses, the greater the awareness that there is little argument to oppose its use as alternative capital to common stock for mutual banks.

Tuesday’s meeting will also discuss information filings requirements for insured depositories with $50 - $100 billion in assets.

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