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BANK RUNS AND REGULATION UPDATE

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Before the collapse of Silicon Valley Bank (SVB) in March 2023, more than two years had passed since the last failure of a U.S. bank (Wack, 2023). The demise of SVB marked 2023 as a historic year for bank failures in the United States. Following the collapses of SVB, Signature Bank, and First Republic Bank, two smaller U.S. banks faced failures within the same year. In July, Heartland Tri-State Bank, a midwestern institution, became the fourth U.S. bank to experience a failure, impacting $139 million in assets ("Bank Failures in Brief-2023", 2023). In November, Citizen's Bank in Sac City was closed, affecting $66 million in assets ("Bank Failures in Brief-2023", 2023). The five bank failures totaled $548.7 billion in combined assets, representing the largest sum ever for bank failures in a single year (Wack, 2023).

After the collapses of SVB, Signature Bank, and First Republic Bank, in August 2023, the Federal Deposit Insurance Corporation (FDIC), the Federal Reserve, and the Office of the Comptroller of the Currency issued proposed regulations for large regional banks (Schroeder, 2023). The proposal aims to establish debt requirements in the case of failure for banks with over $100 billion in assets (Schroeder, 2023). Under the proposal, large regional banks with over $100 billion in assets would be required to issue approximately $70 billion in long-term debt to safeguard against losses if at risk of insolvency (Buchwald, 2023). According to FDIC Chairman Martin Gruenberg, the crisis earlier this year highlighted that "smaller banks need stricter rules," and more long-term debt offers protection for losses while reassuring depositors (Schroeder, 2023). With the comment period ending in late November, the proposal's review is underway and if implemented, the proposal would not go into effect until early 2025 (Buchwald, 2023).

Despite the lack of major legislation related to bank runs and regulations passing in Congress this year, bills with significant implications have been introduced and widely co-sponsored. In March 2023, U.S. Senator Elizabeth Warren (D-MA) and U.S. Representative Katie Porter (D-CA), along with dozens of Democratic lawmakers, introduced the Secure Viable Banking Act ("Warren, Porter"). The legislation aims to repeal Title IV of the Economic Growth, Regulatory Relief, and Consumer Protection Act, a Dodd-Frank-protection repealed under former President Donald Trump ("Warren, Porter”). Senator Warren and a bipartisan group of senators also introduced the Failed Bank Executives Clawback Act, legislation that would allow federal regulators, during a bank failure, to partially or fully claw back up to five year’s worth of compensation from responsible executives (“Warren, Hawley, Cortez Masto, Braun”). To date, both bills have not passed in the Senate. Furthermore, the Senate Banking Committee Chair, Senator Sherrod Brown (D-OH), with Senator Tim Scott (R-SC), created the Recovering Executive Compensation Obtained from Unaccountable Practices (RECOUP) Act of 2023 (Olmem et al., 2023). The bill addresses executive accountability, enforces clawback authority, and requires banks to engage in responsible management (“Recoup Act of 2023”). With strong bipartisan support, the bill was voted out from the Senate Banking Committee to the full Senate (Olmem et al., 2023). The aforementioned bills should be closely monitored for future movement in Congress, and similar bills can be introduced in the House as well.

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