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OCC Study Finds No Safety Net Subsidy for Banks

A research paper by OCC economist Gary Whalen concludes that most banks face regulatory costs that outweigh any benefit from the deposit insurance safety net and only a small minority of banks receive a net benefit, which is minimal at best. The paper also finds no evidence that banks tend to organize their activities in a bank rather than a bank holding company, as would be expected if banks gained a significant advantage from the safety net.

"This paper suggests that banks gain no competitive edge in the marketplace from the safety net," said Comptroller of the Currency Eugene Ludwig. "Nor does the alleged safety net subsidy give an advantage to conducting activities in a bank rather than a bank holding company," he said.

Whalen's research found that when benefits from the federal safety net are calculated against bank regulatory costs for the 50 largest banking companies, the median net value from the safety net is a negative 7.3 basis points. A negative net value applies to 68 percent of these banks. Moreover, this measure is based on a conservative estimate of regulatory costs of 3 percent of bank noninterest expenses.

The study also found that empirical evidence related to bank organizational behavior refutes the existence of any significant advantage from the deposit insurance safety net. If a meaningful advantage existed, banks would likely choose to conduct activities in the bank rather than the bank holding company affiliate. For example, mortgage companies would be expected in banks or their subsidiaries, rather than bank holding company affiliates. However, the study found that in the top 20 banks, no such pattern existed.

Six of the banks conducted mortgage banking activities in a bank holding company affiliate, nine banks conducted the activity in the bank or a bank subsidiary, and five performed the activity in a combination of the bank and the bank holding company.
The study examined debt issuance as well and found that debt is issued by both banks and their parent holding companies. If there were a meaningful safety net subsidy, banks would be expected to issue debt exclusively.

A copy of The Competitive Implications of Safety Net-Related Subsidies may be obtained by writing to Comptroller of the Currency, Public Information Room (Mail Stop 1-5), Washington, D.C. 20219; faxing a request to (202) 874-4448; ordering by phone (202) 874-5043; or visiting the OCC's Public Information Room at 250 E Street, S.W. in Washington, D.C. (9 a.m.-noon and 1-3 p.m., Monday-Friday). The document is available on the OCC's web page at http://www.occ.treas.gov.

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for more than half the nation's banking assets. Its mission is to ensure a
safe, sound and competitive national banking system that supports the
citizens, communities and economy of the United States.