GAO Highlights

Highlights of GAO-14-18, a report to congressional requesters

November 2013

GOVERNMENT SUPPORT FOR BANK HOLDING COMPANIES

Statutory Changes to Limit Future Support Are Not Yet Fully Implemented

Why GAO Did This Study

The federal government extended unprecedented support to financial institutions to stabilize financial markets during the financial crisis. While these actions helped to avert a more severe crisis, they raised questions about the appropriate scope of government safety nets for financial institutions. GAO was asked to review the benefits that large bank holding companies (those with more than $500 billion in assets) have received from actual and implied government support.

This is the first of two reports GAO will issue on this topic. This report examines (1) actual government support for banks and bank holding companies during the financial crisis, and (2) recent statutory and regulatory changes related to government support for banks and bank holding companies. GAO reviewed relevant statutes, regulations, and agency documents; analyzed program transaction data; and interviewed regulators, representatives of financial institutions, and academics. In a second report to be issued in 2014, GAO will examine any funding or other economic advantages the largest bank holding companies have received as a result of implied government support.

What GAO Recommends

GAO recommends that the Federal Reserve Board establish timeframes for completing its process for drafting procedures related to its emergency lending authority to ensure timely compliance with Dodd-Frank Act requirements. The Federal Reserve Board accepted this recommendation.

View GAO-14-18. For more information, contact Lawrance Evans, Jr. at (202) 512-4802 or EvansL@gao.gov.

What GAO Found

During the 2007-09 financial crisis, the federal government's actions to stabilize the financial system provided funding support and other benefits to bank holding companies and their subsidiaries. Agencies introduced new programs with broad-based eligibility that provided funding support to eligible institutions, which included entities that were part of a bank holding company and others. Programs that provided the most significant support directly to bank holding companies or their subsidiaries included Department of the Treasury capital investment programs, Federal Reserve System lending programs, and Federal Deposit Insurance Corporation (FDIC) guarantee programs. Together these actions helped to stabilize financial conditions, while participating firms also accrued benefits specific to their own institutions, such as liquidity benefits from programs that allowed them to borrow at longer maturities and at interest rates that were below possible market alternatives. At the end of 2008, program use—measured for each institution as the percentage of total assets supported by the programs—was higher on average for banks and bank holding companies with $50 billion or more in total assets than for smaller firms. The six largest bank holding companies were significant participants in several emergency programs but exited most by the end of 2009. Differences in program use were driven in part by how institutions funded themselves. For example, while smaller banks relied more on deposit funding, larger bank holding companies relied more on short-term funding markets and participated more in programs that assisted these markets. In addition to these programs, the Board of Governors of the Federal Reserve System (Federal Reserve Board) granted several regulatory exemptions to allow banks to provide liquidity support to their nonbank affiliates and for other purposes. Finally, government assistance to individual troubled firms benefited these firms, their counterparties, and the financial system.

The Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act) contains provisions that aim to modify the scope of federal safety nets, restrict future government support and strengthen regulatory oversight for the banking sector, but implementation is incomplete and the effectiveness of some provisions remains uncertain. Agencies have finalized certain changes to traditional safety nets for insured banks, but impacts of provisions to limit the scope of transactions that benefit from these safety nets will depend on how they are implemented. The act also places restrictions on emergency authorities used by regulators during the crisis to assist financial firms. For example, it prohibits the use of these authorities to rescue a specific failing firm. The Federal Reserve Board is required by the act to establish policies and procedures implementing changes to its emergency authority under Section 13(3) of the Federal Reserve Act, but it has not completed its process for drafting the required procedures or set time frames for doing so. Setting time frames could help ensure more timely completion of these procedures. FDIC has made progress toward implementing its new authority under the Dodd-Frank Act to resolve a large failing firm. FDIC continues to work to address potential obstacles to the viability of its resolution process as an alternative to bankruptcy, such as challenges that could arise when resolving more than one failing firm. Finally, the Federal Reserve Board has finalized certain enhanced prudential standards for the largest financial firms intended to reduce the risks these firms could pose to the financial system.