Letter-to-the-Editor
The Wall Street Journal
Submitted by FDIC Vice Chairman Thomas Hoenig

Gillian Tan's January 24 article "Banks Sit Out Riskier Deals" gives the impression that the banking regulatory agencies' recent guidance on leveraged lending will hurt banking and business interests. Such a statement is opinion, not fact. The article goes so far as to offer a quote from a money manager as evidence of its adverse effects, saying that "micromanaging lending in this manner could...lead to.... distorting pricing and limited supply."

Here is a fact: current regulatory guidelines leave plenty of flexibility to make leveraged loans. The price and supply distortions that do exist are created by the subsidy provided when the public safety net of the commercial banking system takes on the extreme leverage and increased risks embedded in making loans outside of the guidance.

The regulatory guidance referenced in the article represents basic and reasonable underwriting standards for firms that hold insured deposits and for which the taxpayer remains the ultimate underwriter of lending mistakes. I am pleased that we are acknowledging that neither the safety net nor the leverage it encourages is free.

Private equity is private, and the cost of the deal may finally accurately reflect the level of risk involved. This is one small step back toward free market capitalism. There is no need for apologies or back-peddling from the regulatory agencies.

Sincerely,
Thomas Hoenig,
FDIC Vice Chairman