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Higher capital doesn't contribute to lower lending. Data show the opposite is true

Dear Editor,

Stephen A, Schwarzman's "How the Next Financial Crisis Will Happen" (op-ed, June 10) is correct in the sense that it is wise to take a holistic review of recently imposed regulatory requirements. However, I have found that the facts aren't consistent with Mr. Schwarzman's statements or conclusions.

Higher capital doesn't contribute to lower lending. The data show that the opposite is true: Banks with stronger capital positions maintain higher levels of lending over the course of economic cycles than those with less capital. Additionally, better capitalized banks compete favorably in the market and survive economic shocks without failing or requiring bailouts.

I agree that the liquidity rules are complicated, but unfortunately they are necessary because despite protestations to the contrary, the largest global banks are the least well capitalized of any banks operating in the U.S. In the crisis, these largest banks were unable to provide credit or serve as a source of liquidity because they were significantly undercapitalized and were reducing their assets and lines of credit to survive and meet the market's demand that they hold sufficient capital.

To suggest that Dodd-Frank and the Volcker rule are responsible for lack of liquidity in the Treasury market is simply not credible, since U.S. government securities are specifically exempted from the Volcker rule. For other securities, Mr. Schwarzman ignores the effects on market liquidity and volatility from current monetary policy, uncertainty about future monetary policy and the reality of the industry's continued leveraged balance sheets. It is equally misleading to use community banks as the excuse for repealing the Volcker or liquidity rules since they are not subject to the requirements.

Markets perform most efficiently when trading, swap transactions and other capital-markets services are backed by owner capital—not by the taxpayer. There always will be periods of increased volatility, but the market will function best when the largest firms, which so dramatically affect markets, take responsibility for the quality of their assets and the reliability of their funding.

Sincerely,

Thomas M. Hoenig

FDIC Vice Chairman

Washington