

## TCH Research Assesses Funding Costs for Large Banks

*Working paper documents a sharp decline in large bank funding advantage, suggesting that TBTF perceptions have subsided significantly, and highlights sizable net offset costs of sustainable macro-prudential reforms*

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New York, NY – July 28, 2014 – The Clearing House Association today released its [third research paper](#) in its Working Paper Series on the Value of Large Banks. The paper examines existing academic literature on bank funding costs, noting the significant decline in large bank funding advantages post implementation of Dodd-Frank reforms.

“The most recent and credible research on bank funding costs indicate that funding differences among banks of different sizes have significantly declined, suggesting that TBTF perceptions have diminished,” said Paul Saltzman, President of The Clearing House Association. “That should come as no surprise, as it simply reflects existing law which prohibits taxpayer bailouts, as well as the progress we’ve made through implementation of a sustainable regulatory framework that both mitigates the likelihood of large bank defaults and the systemic impact if they do fail. We now have the tools in place to more effectively resolve any bank regardless of size or complexity without taxpayer support and market participants are factoring these developments into their assessment of bank credit risk.”

The research paper, titled Working Paper No. 3: Assessing Funding Costs and the Net Impact of Government Policy on Large Banks, finds no persuasive evidence that large banks enjoy any competitive advantages associated with market perceptions of implicit U.S. government support. Recent empirical work that includes post-reform data shows little evidence of TBTF effects today on large bank funding costs also demonstrating the positive impact of investor liquidity and economies of scale found in other industries where TBTF perceptions are not present.

Further, the research paper outlines recent regulatory reforms designed to prevent the failure of large institutions and to resolve the largest and most complex institutions without adverse systemic consequences. These developments are affecting market perceptions of the likelihood that taxpayers will bail out creditors of large institutions in the future. In response, market participants – as well as the leading credit rating agencies – are revising their expectations of taxpayer support of large U.S. banks. The paper also highlights the “taxing effect” on large banks and incorporates the sizable costs of these important and sustainable macro-prudential reforms into an analysis of the overall net competitive effects of government policies on large banks.

The Clearing House developed this working paper series to facilitate a fact-based dialogue to the politically charged issue of whether large banks enjoy an unfair competitive advantage through lower funding costs because they are perceived to be TBTF. The [first working paper](#) provided the necessary context for the policy debate by framing the appropriate question that policymakers should be considering: Do large banks today enjoy unfair economic benefits as a result of expressed, implied, or perceived government policies? The [second working paper](#) examined whether deposit insurance and access to the discount window provide an unfair economic advantage to large banks. It concluded that large banks have not enjoyed—and in the future are not likely to enjoy—any disproportionate economic benefit from these two pillars of our banking system’s stability.

**Established in 1853**, The Clearing House is the oldest banking association and payments company in the United States. It is owned by the world’s largest commercial banks, which hold more than half of all U.S. deposits. The Clearing House Association L.L.C. is a nonpartisan advocacy organization representing – through regulatory comment letters, amicus briefs and white papers – the interests of its owner banks on a variety of important banking issues. Its affiliate, The Clearing House Payments Company L.L.C., provides payment, clearing and settlement services to its member banks and other financial institutions, clearing almost \$2 trillion daily which represents nearly half of the automated clearing-house, funds transfer, and check-image payments made in the United States. See The Clearing House’s web page at [www.theclearinghouse.org](http://www.theclearinghouse.org).