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Press Release

New Study on Bank Bond Spreads Finds No Evidence of TBTF Effects on Large Bank Funding Costs

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New York, NY – April 10, 2014 – Today, an independent research report commissioned by The Clearing House Association was released that measures too-big-to-fail (TBTF) effects from 2009-2013 based on differences in market spreads for senior unsecured bonds issued by U.S. bank holding companies.

The research updates a widely cited study of bond spreads by notable researchers from NYU by using a similar analytical model and extending the data set through 2013 in an effort to assess whether post-crisis bank bond spreads reflect the major legal and regulatory reforms efforts intended to combat TBTF.

Authored by John Lester and Aditi Kumar of Oliver Wyman, the report finds no evidence of TBTF effects on large bank funding costs. Specifically, while bond spread differences were observable during the financial crisis, the gap declined in subsequent years, becoming insignificant by 2013.

“These findings are consistent with what other independent studies looking at the most recent period have found: funding cost differences have narrowed precipitously and significantly in the years following financial regulatory reform,” said Bob Chakravorti, Ph.D., Managing Director and Chief Economist at the Clearing House. “The fact that the differential has essentially disappeared by 2013 suggests quite convincingly that the reforms are taking hold and dramatically changing market perceptions of risk and funding costs today.”

The analysis of bond spreads follows an initial report conducted by Oliver Wyman and released in March which examined deposit rate differences among banks. Together, these analyses are the first to examine funding costs up through 2012 and 2013, respectively, capturing the impact of financial regulatory reforms put in place by the 2010 Dodd-Frank Act.

The full report is available here.

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