STATEMENT OF

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SILICON VALLEY BANK

U.S. SENATE
COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS

# EXAMINING THE REGULATORY REGIME FOR REGIONAL BANKS

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## I. INTRODUCTION AND BACKGROUND ON SILICON VALLEY BANK

My name is Greg Becker, Chief Executive Officer of SVB Financial Group, the parent company of Silicon Valley Bank ("SVB"). I appreciate the opportunity to submit testimony today regarding the need to raise the $50 billion threshold for application of enhanced prudential standards under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"), and how, without doing so, SVB and other mid-sized banks will face significant burdens that inherently and unnecessarily will reduce our ability to provide the banking services our clients need.

SVB, which was founded in 1983, provides targeted financial services and expertise to entrepreneurs and companies in the technology, life science and healthcare, private equity and venture capital, and premium wine industries. SVB's core business is centered on traditional banking services, which includes accepting deposits and making loans to the types of rapidly growing small businesses and their investors that are driving innovation and creating jobs.

Throughout the recent economic downturn, SVB was able to lend to its clients while maintaining strong credit quality. In fact, from 2007-2011, SVB increased the amount of total loans it offered by 68 percent—from $4.2 billion to $7.0 billion—with net charge offs averaging less than one percent. Moreover, in the past two years, SVB has increased loans at well over two times the average rate of its peer institutions, while further reducing its net charge offs to approximately 0.32 percent. Taken together, these numbers demonstrate SVB's deep understanding of the markets it serves, our strong risk management practices, and the fundamental strength of the innovation economy. Furthermore, SVB's ability to lend to over 7,800 clients while maintaining strong credit quality reflects our commitment to providing the credit our clients need to grow, innovate, and create jobs.

As SVB continues to expand its role in serving the innovation economy, its total consolidated assets are approaching the $40 billion mark, and with continuing organic growth, we expect to cross the $50 billion threshold–the threshold that triggers application of significant regulatory burdens under the Dodd-Frank Act. These new burdens and the related compliance costs and necessary management time and other human resources are significant, and will require us to divert resources and attention from making loans to small and growing businesses that are the job creation engines of our country, even though our risk profile would not change.

We urge Congress to act quickly to increase the $50 billion threshold and create a new asset-level floor below which enhanced prudential standards will not apply. Without such changes, SVB likely will need to divert significant resources from providing financing to job-creating companies in the innovation economy to complying with enhanced prudential standards and other requirements. In addition, without a "bright-line" floor that sets a line below which enhanced prudential standards would not apply, there is a significant risk of regulatory scope creep that would lead to regulation designed for the largest banks being applied to mid-sized banks, like SVB. Given the low risk profile of our activities and

business model, such a result would stifle our ability to provide credit to our clients without any meaningful corresponding reduction in risk.

In Section II below, we explain the importance of revising the threshold to accommodate the lower risk profile of mid-sized banks and how the current standard is defeating the underlying purpose of the Dodd-Frank Act. Further, in Section III, we highlight the need for establishing a bright-line floor for any such revised standard, which would provide much needed certainty for mid-sized banks like SVB and help avoid regulatory scope creep.

## II. THE $50 BILLION THRESHOLD IMPOSES SIGNIFICANT BURDENS ON TRADITIONAL BANKS WITH LITTLE CORRESPONDING REGULATORY BENEFIT

SVB, like our mid-sized bank peers, does not present systemic risks. We do not engage in market making, securities underwriting or other global investment banking activities. We also do not engage in complex derivatives transactions or dealing, offer complicated structured products, or participate in other activities of the sort that contributed to the financial crisis. As noted, SVB's core business is traditional banking – taking deposits and lending to growing companies that drive job creation and the investors in those companies. We have approximately 7,800 lending clients (compared to the millions of clients serviced by the largest banks), and we are able to have a thorough understanding of the nuances of each of their businesses. Because SVB's business model and risk profile does not pose systemic risk, imposing the numerous Dodd-Frank Act requirements that were designed for the largest bank holding companies ("BHCs") would place an outsized burden on us, with minimal corresponding regulatory benefit.

Since the enactment of the Dodd-Frank Act, we have made meaningful investments to our risk systems, hired additional highly skilled risk professionals, and established a stand-alone, independent Risk Committee of our Board of Directors. In addition, we have been conducting a range of different stress tests designed to measure and predict the risks associated with our business in different economic scenarios. As a result of taking these steps, we believe we are effectively managing the risks of our business and reasonably planning for possible unfavorable future business scenarios. Nevertheless, once we cross the $50 billion threshold, the Federal Reserve Board ("FRB") will be forced to alter the regulatory framework that applies to us, even though our risk profile and business model will remain exactly the same. As a result, a number of new requirements would automatically apply to SVB, including:

- The requirement to submit an annual capital plan for the FRB's evaluation under the Comprehensive Capital Analysis and Review ("CCAR") program, which was originally designed for global systemically important banks ("G-SIBs") as a response to the financial crisis.[1]

[1] 12 C.F.R. 225.8.

- Stress testing through the annual supervisory stress tests conducted by the FRB, as well as the semi-annual company stress testing requirements.[2] Governor Tarullo has noted that the annual supervisory stress tests require aggregation and reporting of data that "entail substantial expenditures of out-of-pocket and human resources" beyond the stress testing required of banks with assets between $10 and $50 billion.[3]

- The liquidity coverage ratio, which penalizes banks with a simple commercial lending business models, like SVB, as compared to larger, complex banks with a wide range of business lines.[4]

- The requirement to annually submit a resolution plan (or "living will").[5]

- Additional liquidity and other prescriptive risk management requirements.[6]

Thus, if the $50 billion threshold is not raised, SVB ultimately will be subject to the array of regulatory requirements designed for the largest, most complex banks. The resources necessary to meet these requirements are significant and would lead our compliance costs to dramatically increase – again, despite our fundamental business model and risk profile remaining the same.[7]

We urge Congress to fix this unbalanced regulatory treatment. Setting aside the significant compliance costs that we would incur, regulating SVB in this fashion would, as FRB Governor Daniel Tarullo's stated before this Committee, provide minimal regulatory benefit because the Dodd-Frank Act's enhanced prudential standards are not aimed at, and could be harmful to, a traditional banking business model like that of SVB.[8] In addition,

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2 12 C.F.R. pt. 252, subparts E-F.

3 Statement of Daniel K. Tarullo, *Examining the Regulatory Regime for Regional Banks: Hearing Before the S. Comm. on Banking, Housing and Urban Affairs*, 115th Cong. (Mar. 19, 2015) [*hereinafter*, Tarullo Senate Testimony].

4 12 C.F.R. 217.61-63.

5 12 C.F.R. pt. 243.

6 12 C.F.R. 252.34-35 (Liquidity Risk Management); 12 C.F.R. 252.33 (Risk Governance).

7 One bank that is approaching the $50 billion threshold has said that it expects to incur compliance costs of approximately $10 million per quarter to prepare for crossing the threshold, with ongoing expenses of 75 to 80 percent of that amount thereafter. *First Republic Intends to Grow 'Well Past' $50B, CEO Says*, AMERICAN BANKER (Oct. 17, 2014); First Republic Investor Presentation (Aug. 2014), *available at* http://phx.corporate-ir.net/External.File?item=UGFyZW50SUQ9MjQ3ODA0fENoaWxkSUQ9LTF8VHlwZT0z&t=1.

8 Tarullo Senate Testimony, *supra* note 3.

Governor Tarullo noted that supervisory stress testing "can be a considerable challenge for a $60 billion or $70 billion bank [with] benefits [that] are relatively modest," and previously has suggested that a more appropriate threshold may be $100 billion.[9]

Governor Tarullo and Comptroller Thomas Curry also have stated that the $50 billion cutoff may not be an adequate gauge of a bank's systemic risk profile. Comptroller Curry explicitly stated that the $50 billion threshold may not "necessarily mean that [a bank] is engaged in that activity" that enhanced prudential standards are designed to limit. In other words, the $50 billion threshold may not get to the root of the problem at all.[10] To this point, when examining systemic importance indicators of the 33 U.S. BHCs with assets of $50 billion or more, the Office of Financial Research highlighted risk scores only for those BHCs with assets over $250 billion, which indicates that only those banks present systemic risk.[11] Further, former Congressman Barney Frank, one of the authors of the Dodd-Frank Act, has argued that the threshold itself should be revisited, and the Bipartisan Policy Center supports raising the threshold to $250 billion.[12]

In addition to these concerns, the current Dodd-Frank Act threshold of $50 billion is driving consolidation in the banking sector, so that larger, combined enterprises can absorb the significant costs associated with crossing the $50 billion threshold.[13] This trend seems

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9 *Id.*; Speech of Daniel K. Tarullo at Fed. Res. Bank of Chicago Bank Structure Conference, Chicago, Illinois, *Rethinking the Aims of Prudential Regulation* (May 8, 2014).

10 *See* Comptroller Thomas Curry, *$50 Billion Cutoff Alone is Inadequate to Gauge Banks' Risk*, AMERICAN BANKER (Sept. 23, 2014).

11 *See* Office of Financial Research, Brief Series 15-01, *Systemic Importance Indicators for 33 U.S. Bank Holding Companies: An Overview of Recent Data* (Feb. 12, 2015).

12 *See* Statement of Congressman Barney Frank, *Assessing the Impact of the Dodd-Frank Act Four Years Later: Hearing Before the H. Comm. on Fin. Servs.*, 115th Cong. (July 23, 2014); Bipartisan Policy Center, *Dodd-Frank's Missed Opportunity: A Road Map for a More Effective Regulatory Architecture* (Apr. 2014), *available at* http://bipartisanpolicy.org/library/dodd-franks-missed-opportunity-road-map-more-effective-regulatory-architecture-2/ (arguing that changing the threshold to $250 billion would permit regulators to focus more resources on a smaller set of institutions that present the greatest potential systemic risk).

13 Several recent transactions point to this trend. Three noteworthy examples are: (1) the acquisition of City National Corporation, with approximately $32 billion in assets at the time the deal was announced, by Royal Bank of Canada (announced on January 22, 2015); (2) the acquisition of IMB Holdco LLC, the parent company of OneWest Bank N.A., with $23 billion in assets at the time the deal was announced, by CIT Group Inc., with approximately $45 billion in assets at the time the deal was announced (announced on July 22, 2014); and (3) the acquisition of Susquehanna Bancshares, with approximately $18.6 billion in assets at the time the deal was announced, by BB&T Corporation, with an asset size of $187 billion at the time the deal was announced (announced Nov. 12, 2014).

contrary to the Dodd-Frank Act's purpose to limit the propagation of "too big to fail" institutions.

## III. IN ESTABLISHING A NEW THRESHOLD, CONGRESS SHOULD USE A "BRIGHT LINE" FLOOR TO PROVIDE CERTAINTY TO MID-SIZED BANKS

SVB believes the most important piece of any revision to the $50 billion threshold should be providing a "bright-line" floor, below which enhanced prudential standards would not apply. A "bright-line" would clearly identify banks that do not present systemic risk. A floor would provide certainty to those banks below the threshold, and could help stop the regulatory scope creep of using the $50 billion threshold in rules where the threshold is not mandated by the Dodd-Frank Act. In considering what such a "bright-line" may look like, SVB would like to suggest that the following principles guide Congress' deliberations.

- First, in contrast to the current $50 billion threshold, any bright-line threshold or floor should be designed so that the enhanced prudential standards can be applied only to those banks reasonably likely to present systemic risk.

- Second, consistent with the first principle, the new threshold or floor should be designed to be long lasting. All stakeholders will benefit from an enduring, appropriately calibrated standard that does not need to be revisited in the near term.

- Third, to achieve such a long-lasting threshold, qualitative risk-based factors should be used to determine those banks above the floor that truly present systemic risks and should be subject to enhanced prudential standards. Unlike the approach taken today, using a risk-based approach would provide the FRB with discretion to avoid unnecessarily burdening banks that cross the threshold but are not systemically important.

Using these guiding principles as a baseline, SVB would support a number of solutions for raising the $50 billion threshold.

- Most simply, Congress could raise the current floor. SVB believes a new floor set at a level of at least $100 billion and perhaps as high as $250 billion would be worth considering.

- Another solution could be to establish a threshold derived as a percentage of U.S. gross domestic product ("GDP"), such as 1 percent.[14] This approach has the benefit of establishing a threshold that increases as the U.S. economy grows.

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[14] *Cf.* Governor Daniel K. Tarullo, *Industry Structure and Systemic Risk Regulation*, Brookings Institution Conference on Structuring the Financial Industry to Enhance Economic Growth and Stability (Dec. 4, 2012) (discussing capping non-deposit liabilities by a percentage of GDP).

- SVB also believes that a threshold based on nonbank assets held by a BHC could be used, as nonbank assets could be more likely to indicate heightened systemic risk.

As noted above, we think this threshold should be a floor that clearly demarcates the line below which a BHC simply could not present systemic risks. Then, risk-based factors could be used to determine those BHCs above the floor that warrant – due to their risk profile – the application of enhanced prudential standards.

Most importantly, Congress should strive to balance the regulatory burdens that fall on small to mid-sized banks against their straightforward business models and low risk profile. Failing to achieve the right balance will unnecessarily divert capital, time, and attention, toward unnecessary compliance measures and away from making loans to the small and growing businesses that are the job creation engines of our country.

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In conclusion, SVB asks Congress to consider the impact of the current $50 billion threshold on mid-sized institutions. The evidence is clear that the Dodd-Frank Act's framework for G-SIBs is not appropriate for SVB and our peers – and that the costs are not just high for us, but for our customers. Once again, we appreciate the opportunity to share our views with the Committee and hope that Congress takes action to lift the current unnecessary burden on mid-sized banks.