

# *Redoing the Financial Architecture*

Federal Reserve Bank of Philadelphia

May 13, 2010

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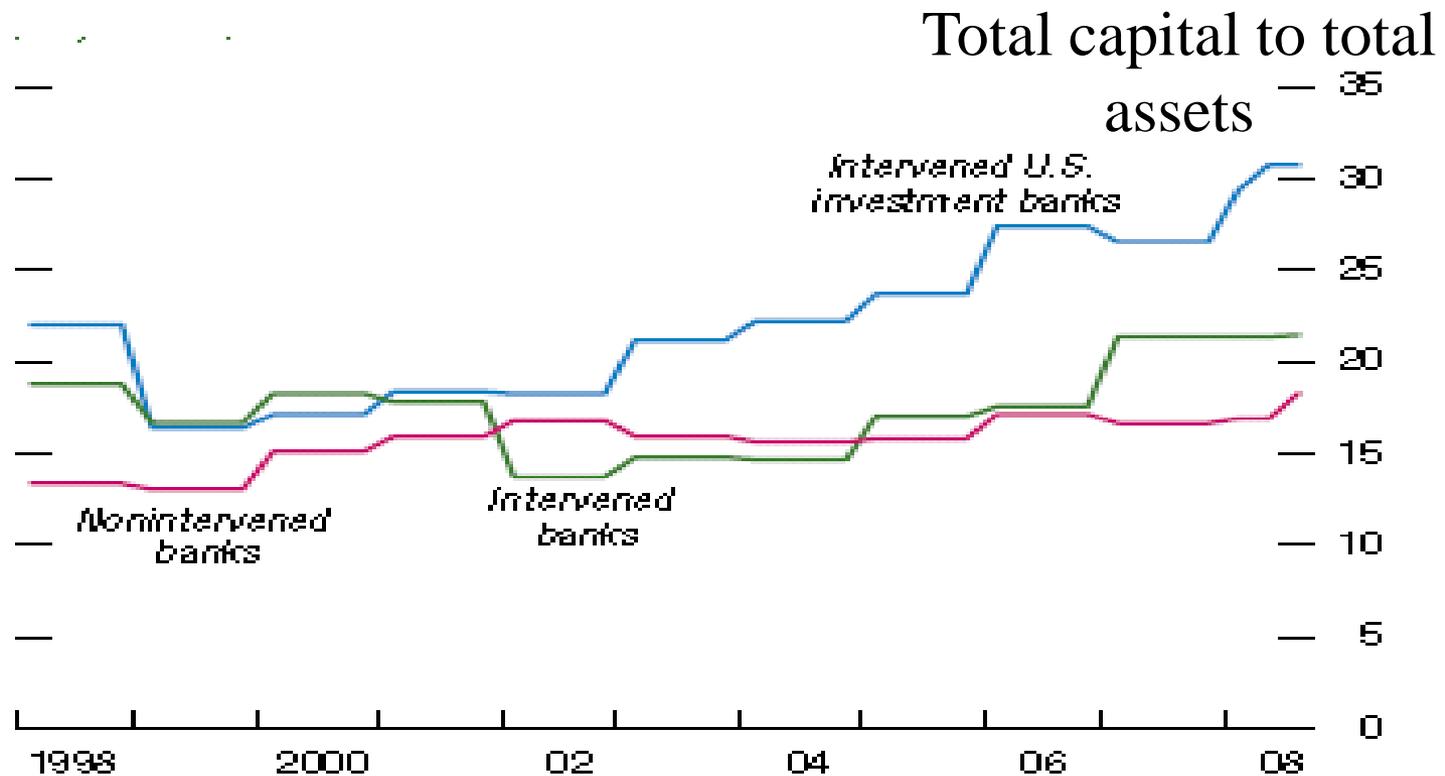
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*So far a heavy  
emphasis on raising  
the quantity &  
quality of capital*



**BUT RECENT EXPERIENCE DOES NOT  
ENGENDER HOPE THAT THIS ALONE WILL BE  
EFFECTIVE**

# Banks that failed had higher capital/asset ratios



Sources: Thomson Reuters; and IMF staff estimates.

Note: The ratios of nonintervened banks, intervened banks, and intervened U.S. investment banks are the average of all institutions in each category.

Source: IMFGFR April, 2009, Chapter 3, p.7

*Regulation and supervision is a continual contest between regulatees and less-well-paid & less-well informed regulators*

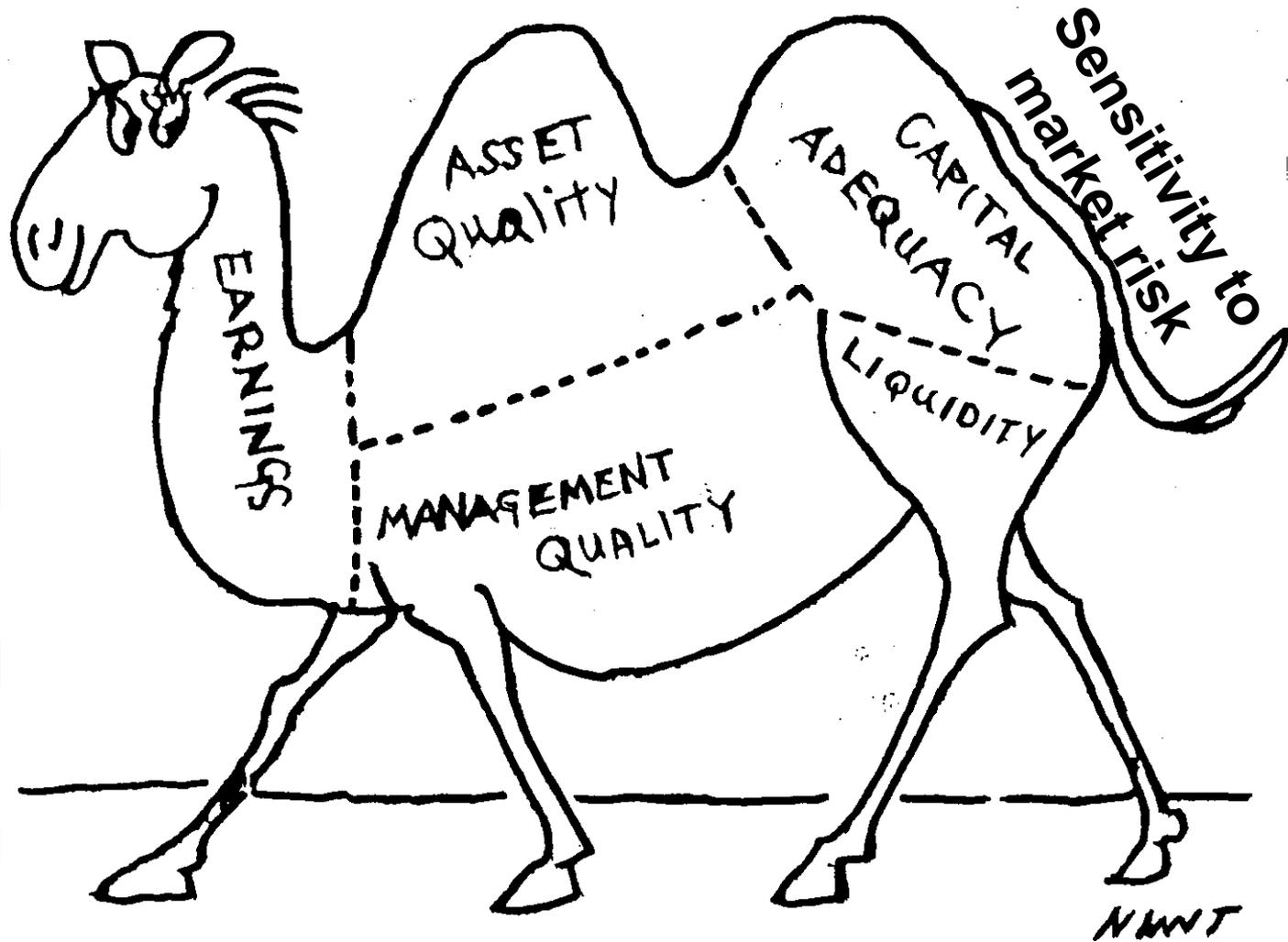


*"These new regulations will fundamentally change the way we get around them."*

*New Yorker, March 9, 2009, p. 52.*

*Bailout Mentality  
has infected even  
bank examinations*





EARNINGS

ASSET QUALITY

MANAGEMENT QUALITY

CAPITAL ADEQUACY

LIQUIDITY

Sensitivity to Market Risk

NWT

# *For the first time a CAMEL rating was revealed in June 2009*

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- ✓ This bank has received billions in TARP money and guarantees
- ✓ Made two disastrous acquisitions
  - Countrywide
  - Merrill Lynch
- ✓ Has a CEO in trouble with the regulatory authorities, shareholders and the courts
- ✓ Has a board with no succession plan
- ✓ Yet bank received a CAMEL rating of 2, indicating it presented no supervisory concern
- ✓ 2B2F mentality has corrupted the supervisory process