The Economist

Bank regulation

Too small to torture

The Federal Reserve contemplates a sliding scale of bureaucracy for banks

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FOR 134 years New York Community Bancorp was a neighbourhood depository in the borough of Queens. In the 1990s, however, it began a caffeinated expansion, completing ten mergers in short order and extending its franchise to several surrounding states. This strategy, although common enough, has brought it sudden attention: with $48 billion in assets as of March 31st, it is the first bank since the financial crisis to approach the $50 billion threshold at which the Federal Reserve can declare it a "systemically important financial institution".

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That would subject it to a series of regulatory torments under the Dodd-Frank law of 2010, which overhauled financial regulation. The agonies would include multifaceted "stress tests", a requirement to draw up a detailed dissolution plan and an implicit veto on all activities by unpredictable bureaucrats. Joseph Ficalora, the bank's chief executive, has said this is not a line he wants to "tiptoe" across. For the moment, the only certain escape is to shed assets. But a reprieve may be coming. Earlier this month Daniel Tarullo, a governor of the Federal Reserve, gave a speech calling for the $50 billion threshold to be scrapped. Instead, he proposes a far more graduated system of regulation, tied not only to a bank's size but also to the activities it undertakes.

"It is an acknowledgment," says Camden Fine, the head of the Independent Community Bankers of America, which represents more than 6,500 smaller banks, "that the current regulatory regime has gone too far, particularly for smaller institutions." Wayne Abernathy of the American Bankers Association, another big industry group, says of Mr Tarullo, "I think he is recognising that the formulas coming out of Dodd-Frank and subsequent rules don't really fit with the United States banking system and its customers."