CENTER FOR FINANCIAL MARKETS
MILKEN INSTITUTE

September 2014

The Big Keep Getting Bigger: Too-Big-to-Fail Banks 30 Years Later

By James R. Barth and Moutusi Sau[1]

The most recent financial crisis made it clear that something had to be done to make sure that big banks would never again pose such a systemic threat to the financial system that they would have to be bailed out by the government. The main purpose of the Dodd-Frank Act of 2010 was to direct financial regulators to implement reforms to ensure that this would indeed be the case. In acting on this mandate, the Federal Reserve is so concerned about the riskiness of big banks that it is proposing that the biggest banks be subjected to significantly higher capital requirements than smaller ones. Under the Fed's proposal, announced in testimony by Governor Daniel K. Tarullo before the Senate Banking Committee on September 9, 2014, the capital requirements imposed on our largest banks would be even higher than those being recommended for international banks by the Basel Committee on Banking Supervision. The more stringent requirements are meant to provide an incentive for big banks to shrink their asset size so they would pose less of a threat to the financial sector as well as to the wider economy should another crisis occur.

In view of all the concern today over some banks' being too big for regulatory comfort, it is instructive to look back at the circumstances that gave rise to the decision that bank size per se could be a key factor in treating big banks that encounter financial difficulties differently from smaller banks. The differential treatment began in September 1984, when the House Banking Committee held hearings on the $4.5 billion bailout of Continental Illinois National Bank & Trust Co. of Chicago. As the *Wall Street Journal* reported at the time, then-Comptroller of the Currency C. Todd Conover "told Congress that the federal government won't currently allow any of the nation's 11 largest banks to fail." The article noted that members of the committee responded to Conover's statement by saying that the "government had created a new category of bank: the 'TBTF' bank, for Too Big To Fail." As the article pointed out, this was the first time that a government official acknowledged the existence of such a policy.

Although Conover did not name the banks, the *Journal* identified the 11 largest banks at year-end 1983. These banks, with their location, asset size, and the percentage of total bank assets, are listed in Table 1. They accounted for nearly one of every three dollars of the assets of the roughly 14,500 banks at the time. The biggest of the big banks were Citibank and Bank of America, each with about $104 billion.

[1] James R. Barth is a Lowder Eminent Scholar at Auburn University and a Senior Finance Fellow at the Milken Institute, and Moutusi Sau is a Program Research Analyst at the Milken Institute Center for Financial Markets in Washington, D.C.

Table 1: The 11 biggest banks deemed too big to fail in 1984 (assets as of year-end 1983)

Bank	**Location**	**Assets ($ millions)**	**% of total bank assets**	**Cumulative assets as % of total bank assets**
Citibank	New York	$104,392	5.2	-
Bank of America	San Francisco	$104,085	5.2	10.3
Chase Manhattan Bank	New York	$72,956	3.6	13.9
Morgan Guaranty Trust	New York	$54,368	2.7	16.6
Manufacturers Hanover Trust	New York	$54,321	2.7	19.3
Chemical Bank	New York	$45,956	2.3	21.6
Continental Illinois National Bank & Trust	Chicago	$39,811	2.0	23.6
Bankers Trust	New York	$36,949	1.8	25.4
Security Pacific National Bank	Los Angeles	$34,329	1.7	27.1
First National Bank of Chicago	Chicago	$33,505	1.7	28.8
Wells Fargo Bank	San Francisco	$23,390	1.2	29.9
Total commercial bank assets		**$2,018,593**	**29.9**	**29.9**

Sources: The Wall Street Journal, The Banker, Federal Reserve, and Milken Institute.

The distinction between banks and their parent holding companies is an important one. Until recently, bank regulatory authorities could seize only a troubled bank, not the parent bank holding company. If the parent company encountered financial difficulties due to the operations of a bank subsidiary, the ultimate resolution would take place in bankruptcy court. The Dodd-Frank Act changed this by granting regulators the authority to seize a troubled bank holding company. Table 2 shows the bank holding companies to which each of the 11 banks deemed too big to fail in 1984 belonged. Also shown is that the bulk of the assets of the holding companies are accounted for by the subsidiary banks, ranging from a low of 83 percent in the case of Citicorp to a high of 100 percent for Bankers Trust New York Corp. The parent bank holding companies accounted for one-third of the total assets of all the bank holding companies at the time.

Table 2: Holding companies of too-big-to-fail banks, year-end 1983

Bank holding company	**BHC's assets ($ millions)**	**% of total BHC assets**	**Cumulative assets as % of total BHC assets**	**Bank**	**Bank's assets ($ millions)**	**Bank assets as % of BHC's assets**
Citicorp	$125,974	6.2	-	Citibank	$104,392	82.9
Bank of America Corp.	$115,442	5.7	12.0	Bank of America	$104,085	90.2
Chase Manhattan Corp.	$75,350	3.7	15.7	Chase Manhattan Bank	$72,956	96.8
J.P. Morgan & Co.	$56,186	2.8	18.5	Morgan Guaranty Trust	$54,368	96.8
Manufacturers Hanover Corp.	$60,918	3.0	21.5	Manufacturers Hanover Trust	$54,321	89.2
Chemical New York Corp.	$47,789	2.4	23.8	Chemical Bank	$45,956	96.2
Continental Illinois Corp.	$41,238	2.0	25.9	Continental Illinois National Bank & Trust	$39,811	96.5
Bankers Trust New York Corp.	$36,952	1.8	27.7	Bankers Trust	$36,949	100.0
Security Pacific Corp.	$38,613	1.9	29.6	Security Pacific National Bank	$34,329	88.9
First Chicago Corp.	$34,871	1.7	31.4	First National Bank of Chicago	$33,505	96.1
Wells Fargo & Co.	$26,522	1.3	32.7	Wells Fargo Bank	$23,390	88.2
Total bank holding company assets	**$2,019,800**	**32.7**	**32.7**			

Sources: The Banker and Milken Institute.

Now let's see what happened to the 11 too-big-to-fail banks 30 years later. Table 3 illustrates the considerable consolidation among the banks as well as the bank holding companies. The original 11 banks shrank in number to four, while the 11 bank holding companies were reduced to five. Only two of the banks, Citibank and Wells Fargo, remained with their original holding company. Although Bank of America remained with Bank of America Corp., which also acquired Security Pacific National Bank, Nations Bank eventually acquired Bank of America Corp. and kept the better known name. Also, J.P. Morgan & Co. merged with Chase Manhattan Corp. to create JPMorgan Chase & Co. As a result of the merger and several acquisitions, five of the initial 11 too-big-to-fail banks became part of this new and larger holding company. Continental Illinois National Bank & Trust was eventually seized by the Federal Deposit Insurance Corp. and sold to Bank of America Corp. This meant that despite the earlier bailout of a too-big-to-fail bank, regulators eventually allowed that same bank to fail by letting a bigger bank become the acquirer and thus even bigger. The four remaining too-big-to-fail banks accounted for 30 percent of total bank assets in March 2014. This contrasts to the 13.4 percent share accounted for by the same banks at year-end 1983. These big banks clearly got bigger over the past three decades, and they did so with the blessing of the regulatory authorities. Many of the original too-big-to-fail banks were absorbed by bank holding companies and therefore have simply been integrated into a larger organization.

Table 3: Status of first 11 too-big-to-fail banks, March 2014

Bank	**Bank holding company**	**Location**	**Total assets of bank subsidiary ($ millions)**	**% of total bank assets**	**Cumulative assets as % of total bank assets**
Citibank	Citigroup Inc.	New York	$1,353,237	9.8	-
Bank of America	Bank of America Corp.	Charlotte	$1,457,856	10.5	20.3
Security Pacific National Bank	Bank of America Corp.	Charlotte	NA		
Continental Illinois National Bank & Trust	Bank of America Corp.	Charlotte	NA		
Chase Manhattan Bank	JPMorgan Chase & Co.	New York	NA		
Morgan Guaranty Trust	JPMorgan Chase & Co.	New York	NA		
Manufacturers Hanover Trust	JPMorgan Chase & Co.	New York	NA		
Chemical Bank	JPMorgan Chase & Co.	New York	NA		
First National Bank of Chicago	JPMorgan Chase & Co.	New York	NA		
Bankers Trust	Deutsche Bank	New York	$60,464	0.004	20.3
Wells Fargo Bank	Wells Fargo & Co.	San Francisco	$1,388,274	10.0	30.3
Total commercial bank assets			**$13,854,733**	**30.3**	**30.3**

Sources: Federal Deposit Insurance Corp. and Milken Institute.

The four remaining US bank holding companies now control 10 of the original too-big-to-fail banks, as shown in Table 4, below, and one foreign bank holding company controls the 11th bank. These four companies accounted for nearly 50 percent of the total assets of all bank holding companies at year-end 2013. In contrast, at year-end 1983 the 11 holding companies of the 11 original too-big-to-fail banks accounted for 33 percent of the total assets of all bank holding companies.

As with banks, big bank holding companies have gotten much bigger over the past 30 years, and also with regulatory approval. It may also be seen that bank assets as a percentage of bank holding company assets range from a low of nearly 68 percent in the case of Bank of America Corp. to a high of nearly 90 percent for Wells Fargo & Co. These percentages are lower than the comparable figures at the end of 1983, since bank holding companies in recent years have been granted authority to engage in a wider range of activities beyond simply banking, which has contributed not only to their growth in asset size but also to their complexity.

Table 4: Holding companies of remaining four original too-big-to-fail banks, year-end 2013

Bank holding company	**BHC's assets ($ millions)**	**% of total BHC assets**	**Cumulative assets as % of total BHC assets**	**Total assets of bank insured subsidiaries ($ millions)**	**Bank assets as % of BHC's assets**	**Biggest bank subsidiary**	**Biggest bank subsidiary assets ($ millions)**
JPMorgan Chase & Co.	$2,476,986	14.6	-	$2,103,729	79.6	JPMorgan Chase Bank	$1,970,450
Bank of America Corp.	$2,152,533	12.7	27.4	$1,643,016	67.7	Bank of America	$1,457,856
Citigroup Inc.	$1,894,736	11.2	38.6	$1,354,741	71.4	Citibank	$1,353,237
Wells Fargo & Co.	$1,546,707	9.1	47.7	$1,436,120	89.8	Wells Fargo Bank	$1,388,274
Total bank holding company assets	**$16,911,000**	**47.7**	**47.7**	**$14,901,002**			

Sources: National Information Center, Federal Reserve Bank of Chicago, Federal Deposit Insurance Corp., and Milken Institute.

The bottom line is that all but one of the biggest banks identified as too big to fail in 1984 still exist today. However, those remaining banks are now much bigger, and the four bank holding companies that now control 10 of the original too-big-to-fail banks are also much bigger. Despite all the concern over "too big to fail," bank regulators allowed the big to get bigger. JPMorgan Chase & Co. was allowed to acquire Bear Stearns and Washington Mutual. Bank of America Corp. was allowed to acquire Countrywide Financial and Merrill Lynch. Wells Fargo & Co. was allowed to acquire Wachovia. It is clear that no real progress has been made on resolving the too-big-to-fail issue for most of the past three decades. Indeed, most disturbing is the fact that whereas the government bailed out one big bank with $4.5 billion in 1984, it injected $45 billion each into Bank of America and Citigroup and $25 billion each into JPMorgan and Wells Fargo. Moreover, the government injected billionsK of dollars more into several hundred other banks a few years ago. How ironic that the regulators allowed, and in some cases even encouraged, big banks to get bigger over the past 30 years and now have designed regulations to make those same banks smaller.