



Federal Financial Analytics, Inc.

**Independent Expert Presses FDIC: Act Fast or the Next Crisis Will Be Even Worse**

Tuesday, February 18, 2014

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In response to the FDIC's notice requesting comment on the single-point-of-entry (SPOE) resolution protocol under Dodd-Frank, Federal Financial Analytics, Inc. (FedFin) has urged the agency to move far faster than it has to date to complete a credible end to too-big-to-fail (TBTF) expectations. "Four years after Dodd-Frank and critical aspects of how the FDIC would respond in a crisis are at best still conceptual," said FedFin managing partner Karen Shaw Petrou. "The resolution strategy is best built out for the biggest banks, but even there vital questions have not even been proposed, let alone answered," she said. "Further, a whole class of systemic institutions – the AIGs, Lehmans, and GSEs of the future – are not even addressed by the FDIC. This creates a strong regulatory push for high-risk finance to leave regulated banks for 'shadow' institutions that might well have to be bailed out," she concluded.

These views are substantiated in the attached comment letter and supporting analysis FedFin filed today with the FDIC. Because of the complexity of many questions surrounding systemic resolutions – e.g., how to rewrite the U.S. Bankruptcy Code –

FedFin chose to focus instead on critical questions the FDIC must urgently answer if its avowed purpose – ending TBTF – is to be quickly achieved.

“The single-point-of-entry approach is credible, but incomplete in critical respects,” Petrou said. “This makes markets even riskier because investors will count on taxpayer bail-outs that won’t come in the U.S. Dodd-Frank by law so clearly bans bail-outs that a dangerous void exists for as long as markets expect bail-outs and the FDIC isn’t sure what it will do in practice if the biggest financial institutions – bank and non-bank falter.”

If you have any questions or need additional information, reply by return e-mail or call 202-589-0880 and ask for Tish Thomas or Arezou Rafikian.

*Federal Financial Analytics, Inc. has provided objective advice on financial-industry policy and strategic issues since 1985. Clients include large financial-services firms, regulators, investors in this sector and others whose names may be found on the firm’s website. The firm does not lobby for clients.*

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