Columbia University/Bank Policy Institute 2025 Bank Regulation Research Conference

The ninth annual Conference on Bank Regulation, co-hosted by the Bank Policy Institute & Columbia University School of International and Public Affairs, took place on February 27th, 2025. Each year, the conference brings together academics, regulators, and practitioners to discuss the latest research on banking and bank regulation. The overarching themes of this year's conference were (1) the interconnectedness of banks and nonbanks, (2) the importance of monitoring and predicting run risk, and (3) further lessons learned from the regional bank failures of 2023. The conference concluded with a panel discussion focused on the outlook for banking regulatory policy.

The first session included papers that examined the evolution of banks' balance sheets, the rise of non-bank financial institutions, and the interconnectedness between the two. While academic literature has traditionally treated banks and non-banks as mostly separate entities, in practice, they interact across multiple dimensions. The first paper points out that there has been a decline in bank balance sheet lending and a rise in originating to distribute intermediation (OTD). These changes were caused by regulatory changes, technological progress, and evolving borrower and saver preferences. The study highlights three key trends: a decline in bank loans as a share of assets, an increase in bank holdings of debt securities, and a shift in saver preferences away from deposits toward alternative financial instruments, alongside borrowers favoring market-based financing and intangible asset investments. Banks play a dual role by both originating and purchasing OTD securities, creating a complementary relationship with non-bank financial intermediaries rather than a purely substitutive one. The authors conclude that regulatory policy analysis should move away from banks, towards the debt securities market and non-bank lending to understand total lending. It is important to collect data beyond balance sheets and to understand the industrial organization of modern financial intermediation.

The second paper examines how monetary policy (QE) can interact with bank regulation, specifically focusing on balance-sheet costs and its effects on money market funds (MMFs) and non-bank financial institutions (NBFIs). The authors find that upon the expiration of the Supplementary Leverage Ratio (SLR) relief in 2021, banks were shedding deposits and reduced the supply of wholesale debt. As a result, money-market funds (MMFs) experienced large inflows and shifted their portfolios toward the Federal Reserve's ONRRP facility, reflecting how higher balance sheet costs reshape the size and portfolio composition of NBFIs. These findings suggest that the impact of the interaction between QE/QT and bank regulation is considerable and should be taken into account by the Fed when designing its implementation regime.

The discussants emphasized that regulatory changes, not just technology, have reduced banks' lending role, enabling nonbanks to expand into origination and financing. They also highlighted that the accumulation of capital, liquidity, and interest rate risk requirements significantly influences banks' balance sheet choices. The discussant called for a more holistic, risk-sensitive regulatory approach that reflects the growing role of nonbanks in financial intermediation.

The second paper session focused on investor and supervisory attention to bank run risk during the 2022 monetary tightening cycle. The first paper examines how investors' perceptions of bank risk evolved before and during the March-April 2023 regional bank crisis, and finds that before the run, stock prices were largely unresponsive to risks such as uninsured deposits and unrealized losses. However, during the crisis these risks became significantly priced into stock valuations. Notably, the increase in risk factor betas was not systematically correlated with pre-existing balance sheet risk in 2022. Instead, they were driven by the arrival of public news. In particular, for banks downgraded by rating agencies during the bank run, news events increased the share of factor betas that responded positively to risk, reflecting investor reaction rather than proactive market discipline.

The second paper examined how bank supervisors responded to emerging interest rate and liquidity risks during the Federal Reserve's 2022 monetary tightening. The findings indicate that supervisors identified and downgraded riskier banks only after the Fed began raising rates. Supervisors were quicker to downgrade banks with unrealized losses in available-for-sale securities compared to those with losses in held-to-maturity securities. Notably, the share of uninsured deposits did not correlate with downgrades. Furthermore, the paper finds that supervisory downgrades led to lower interest rate risk exposure and increased liquidity holdings, although supervisory actions had only a small effect on balance sheet asset allocation.

The discussants emphasized that supervisory responses during the 2022 tightening cycle were reactive rather than proactive, and earlier intervention could have reduced bank interest rate exposure**.** Additionally, the discussants suggested incorporating nonlinear approaches and exploring interactions between risk factors to better identify vulnerabilities and stressed that outcomes ultimately reflect both supervision and regulation.

The keynote speech was delivered by Beth Hammack, President and Chief Executive Officer of the Federal Reserve Bank of Cleveland. In the keynote speech, President Hammack emphasized the importance of financial stability and regulation in evolving market structures. She highlighted the need for different perspectives in regulatory decision-making and acknowledged that there have been both intended and unintended consequences of financial regulations. A key focus was the rise of non-bank financial institutions, particularly private credit and hedge fund leverage. The private credit market has grown significantly, largely due to post-2008 banking regulations that shifted riskier lending outside the traditional banking system. While private credit offers middle-market firms alternative financing, it also raises concerns about hidden vulnerabilities. President Hammack emphasized that increased interconnections between banks and private credit lenders may expose banks to risks not fully addressed by current regulations Similarly, hedge fund leverage in U.S. Treasury markets is increasing, contributing to market liquidity but also underscoring the importance of monitoring for potential financial stability risks. On monetary policy, President Hammack noted that while financial conditions remain accommodative, interest rates may stay higher for longer and suggested that neutral interest rates may be higher post-pandemic, with implications for financial markets. Lastly, she stressed the importance of monitoring financial risks, adjusting regulatory approaches, and establishing a balanced approach to transparency. The remarks are available here.

The third paper session covered additional lessons from the 2023 regional bank failures. The first paper examines how U.S. banks managed their securities portfolios during the rapid rise in interest rates in 2022-23, highlighting the role of financial and regulatory frictions on bank behavior. The study finds that banks faced significant increases in interest rate risk, particularly due to holdings of agency mortgage-backed securities. However, most banks did not actively offset this risk through sales or hedging. Instead, they avoided selling underwater bonds at a discount to book value, exhibiting a strong preference for realizing gains rather than losses in 2022-23. This “strategic” trading is more pronounced for banks that do not recognize unrealized losses in regulatory capital and banks with low stock market valuations. The findings suggest that financial, accounting, and regulatory constraints play a key role in limiting banks’ ability to adjust to rising-rate environments, with important implications for financial stability.

The last paper defines bank branch density as the number of a bank’s branches to its total deposits and highlights the role branch density might have played during the 2023 bank liquidity crisis. The authors point out that banks with low branch density initially saw large deposit inflows, however during the 2023 bank crisis, these same banks experienced significant deposit outflows (uninsured deposits) and as a result a steep decline in stock prices. The paper argues that banks with low branch density relied more on digital banking and attracted more sophisticated depositors who are highly mobile in times of panic.

The discussants emphasized that branch density should be considered alongside other risk factors, as a useful indicator of banking stability. They noted that post-GFC regulation has primarily focused on capital and liquidity, often overlooking interest rate risk. Importantly, they pointed out that banks’ business models vary across banks with the lowest branch density (consumer-focused digital banks), suggesting that banks’ business models attract different types of depositors that may or may not be more inclined to run. These observations underscore the importance of tailoring regulatory responses to diverse bank business models, rather than imposing uniform capital and liquidity requirements.

The last panel focused on the outlook of regulatory policy, with panelists discussing key issues such as the future of supervision in light of the 2023 bank failures, the Basel III Endgame Proposal, bank mergers and acquisitions, and the potential consolidation of financial regulators. The discussion revolved around the need for supervision to prioritize addressing actual financial risks faced by banks rather than focusing on modeling or process issues.

Regarding M&A, panelists discussed the possibility of going back to legacy merger policies, which could strengthen regional banks and increase their ability to compete with the largest banks. As was previously discussed in the paper session, panelists underscored that the bank failures of 2023 were not solely caused by substantial dependence on uninsured deposits, but that interest rate risk played a major role in the failure of SVB.

The discussion also touched on broader economic issues. Panelists noted that stagflation and economic uncertainty could potentially make it difficult to predict policy outcomes and underscore the need for flexibility in bank policy. Proposals such as deposit insurance reform, or the reintroduction of the Term Auction Facility program were suggested as measures to strengthen regional banks and improve financial stability.

Lastly, on the topic of resolving large banks amid international regulatory fragmentation, panelists emphasized the need for quick resolvability of failing banks. While tools for resolving large banks have significantly improved over the last 15 years, their effectiveness remains untested.