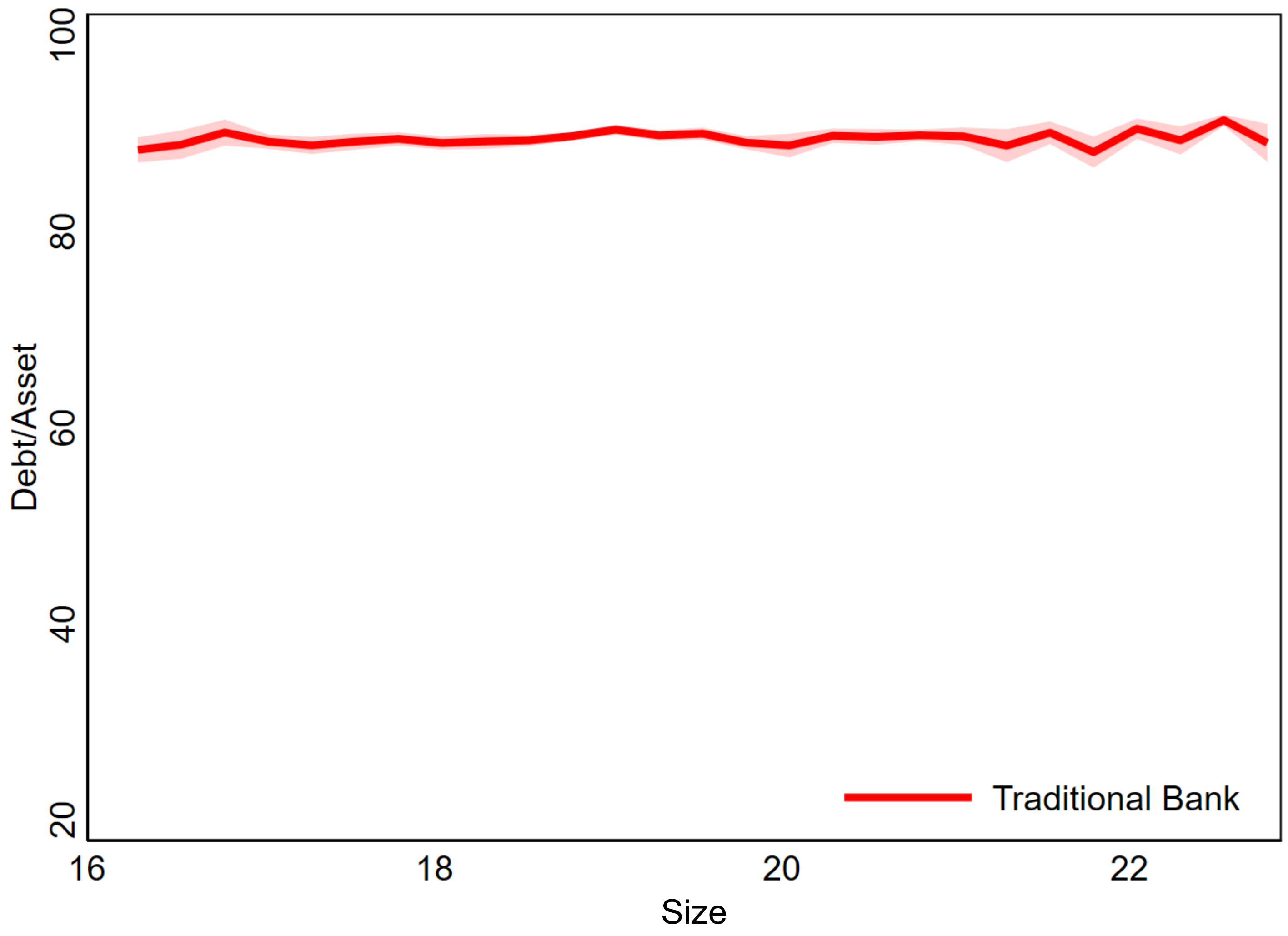
Too Many Rules & Too Much Discretion?
Simplifying Financial Regulation

Amit Seru
Stanford and Hoover Institution

SOMC Meeting: The Fed in The Crosshairs
Looming Issues in The Financial System

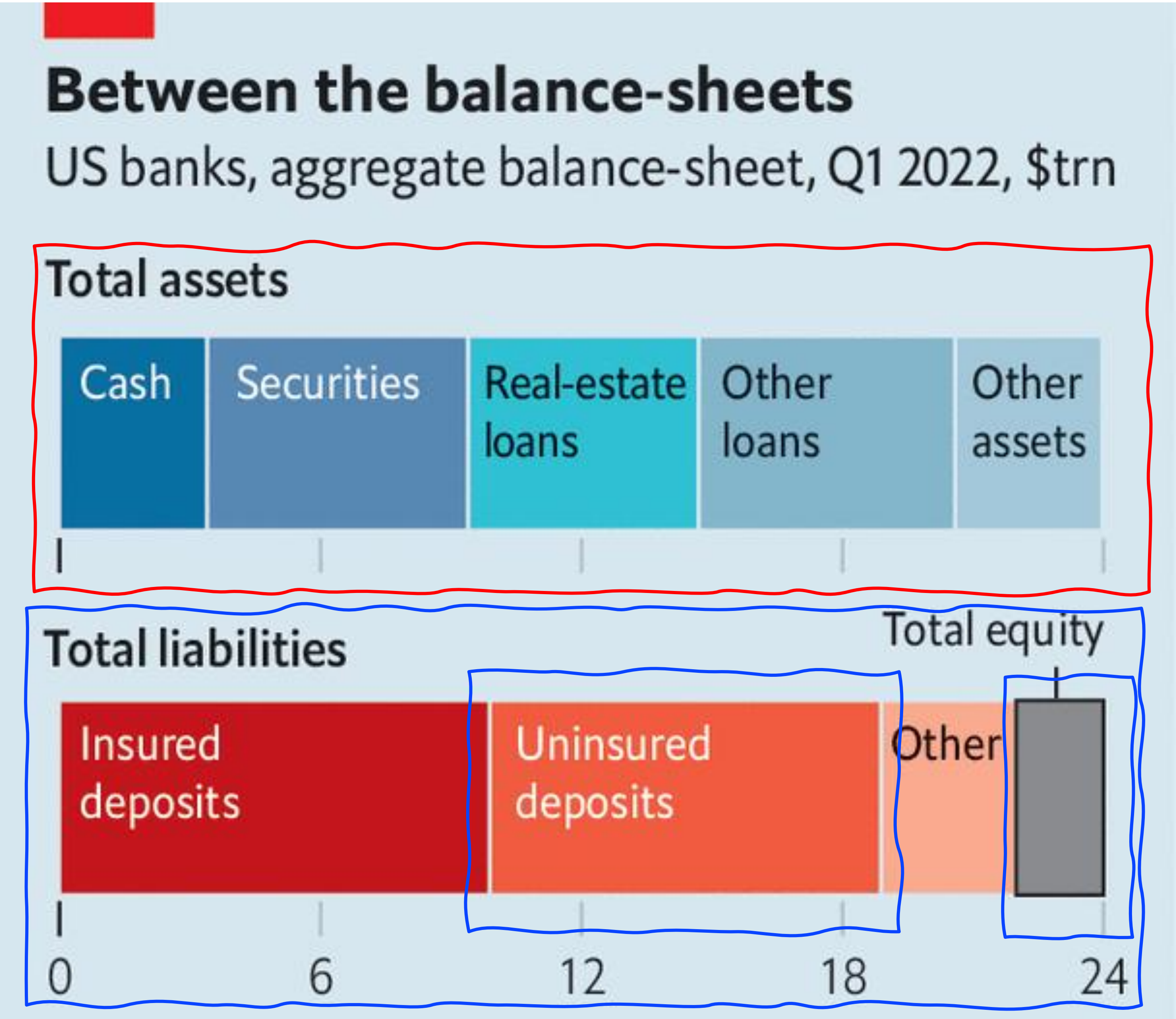
November 7, 2025

Highly Leveraged Banks



Source: Jiang, Matvos, Piskorski, Seru (2020): “Banking without Deposits”…

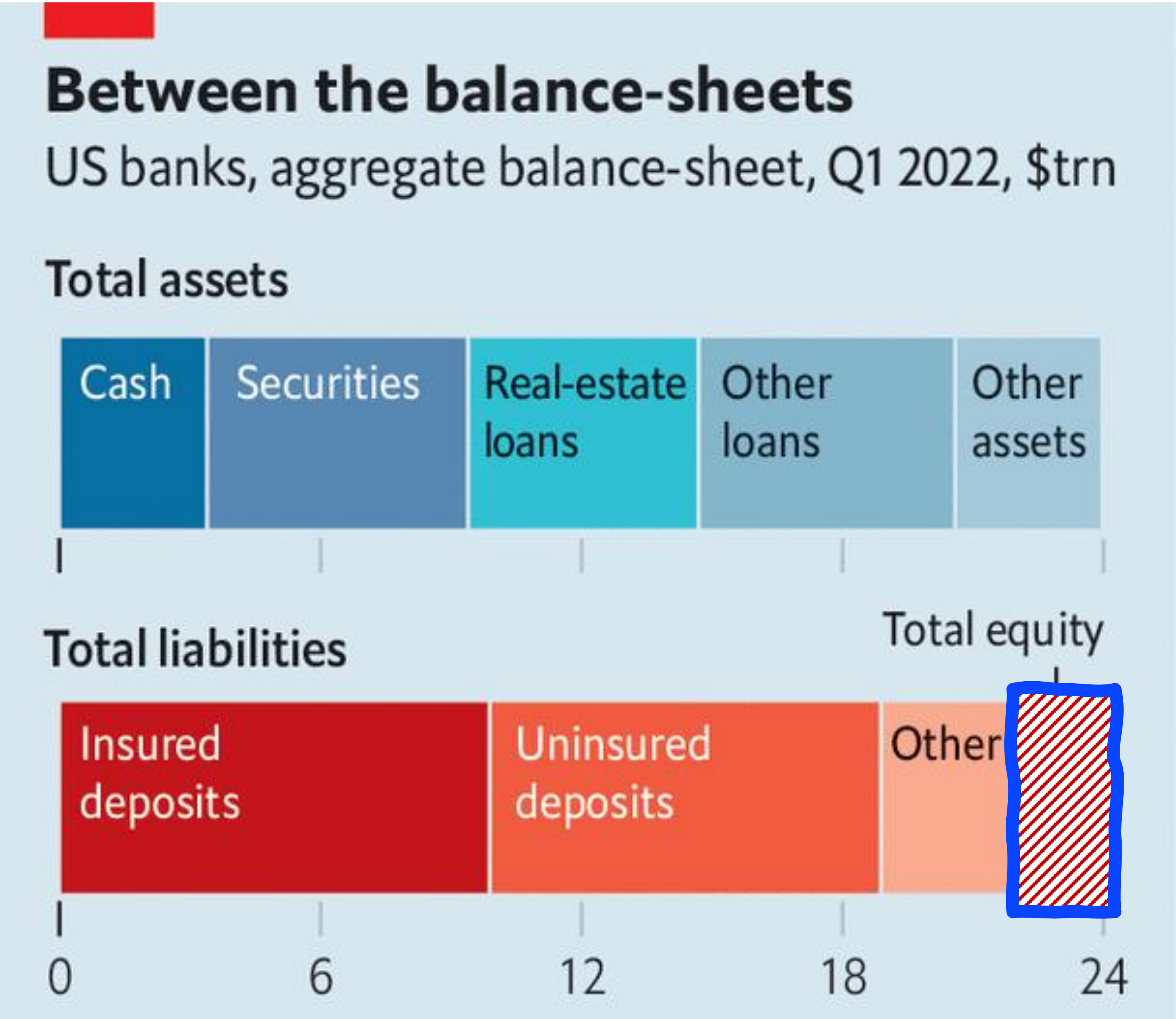
Banking System



Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"...

"Turbulence": Unrealized Mark to Market Losses

2Trillion+

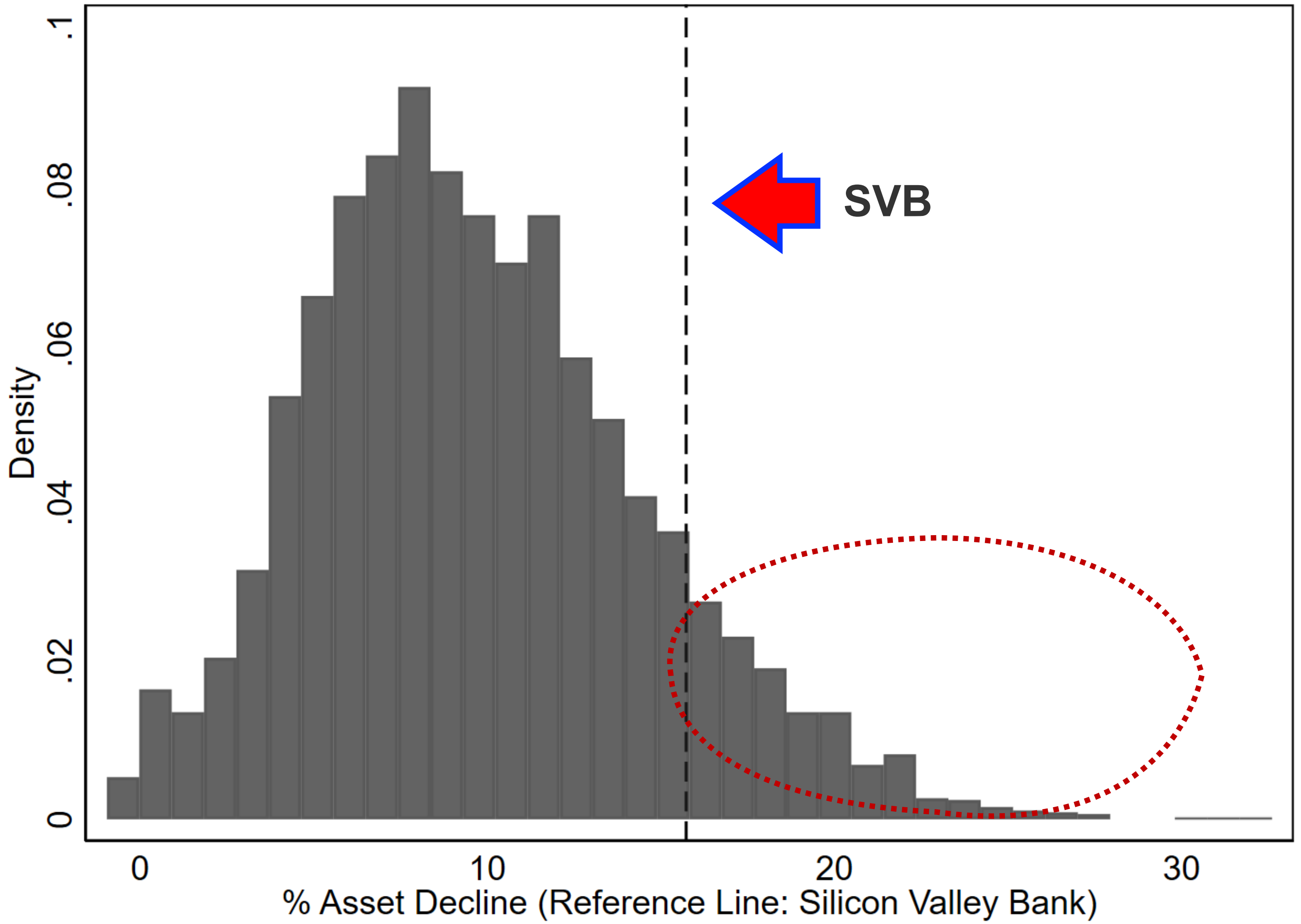


Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"…

“Turbulence”: Unrealized Mark to Market Losses

~60% in “liquid” securities

“Turbulence”: Unrealized Mark to Market Losses

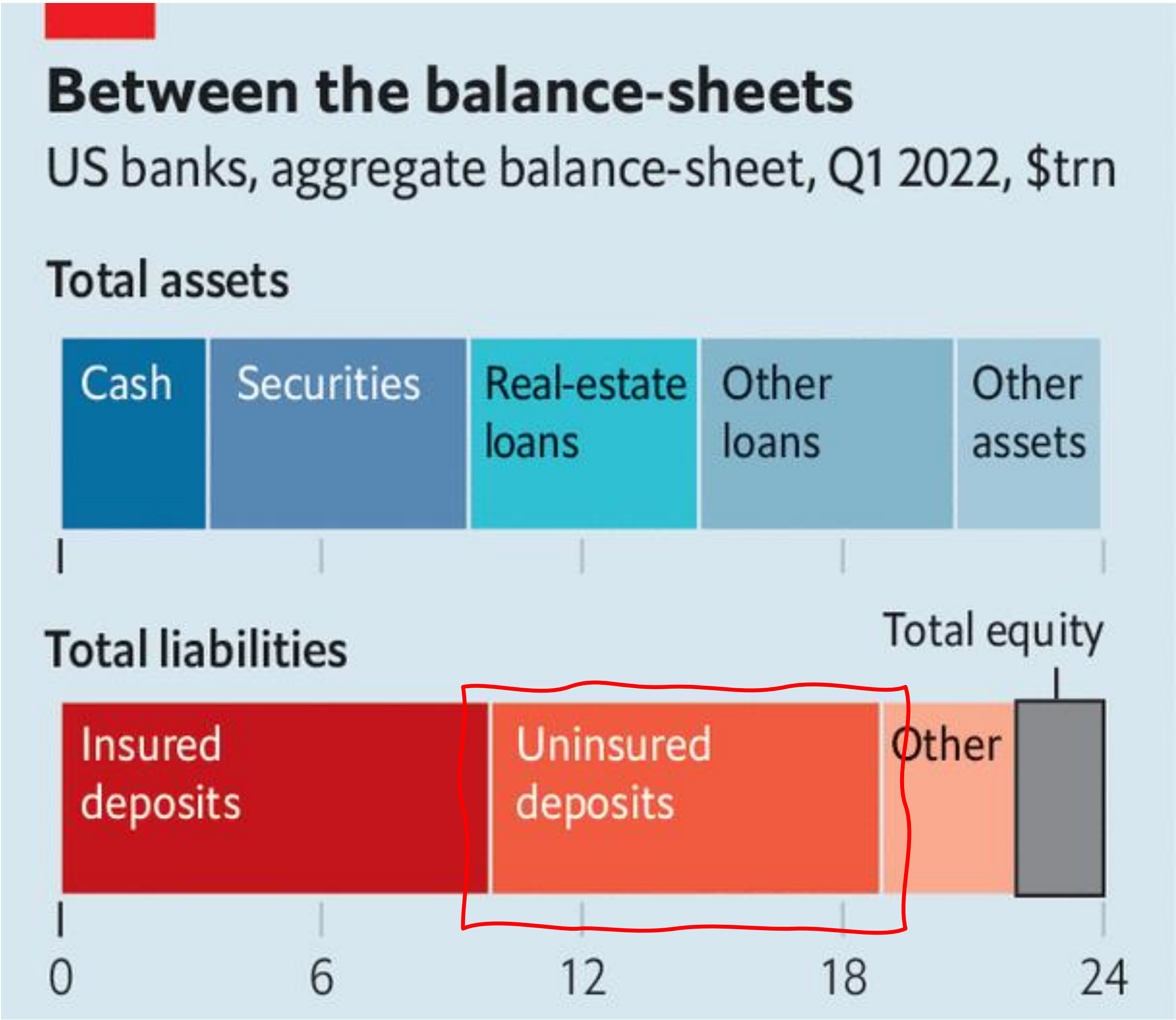


Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”…

“Flight Risk”: Uninsured Leverage

Assets	Liabilities
Loans = 100	Uninsured Deposits = 90
	Insured Deposits = 5
	Equity = 5

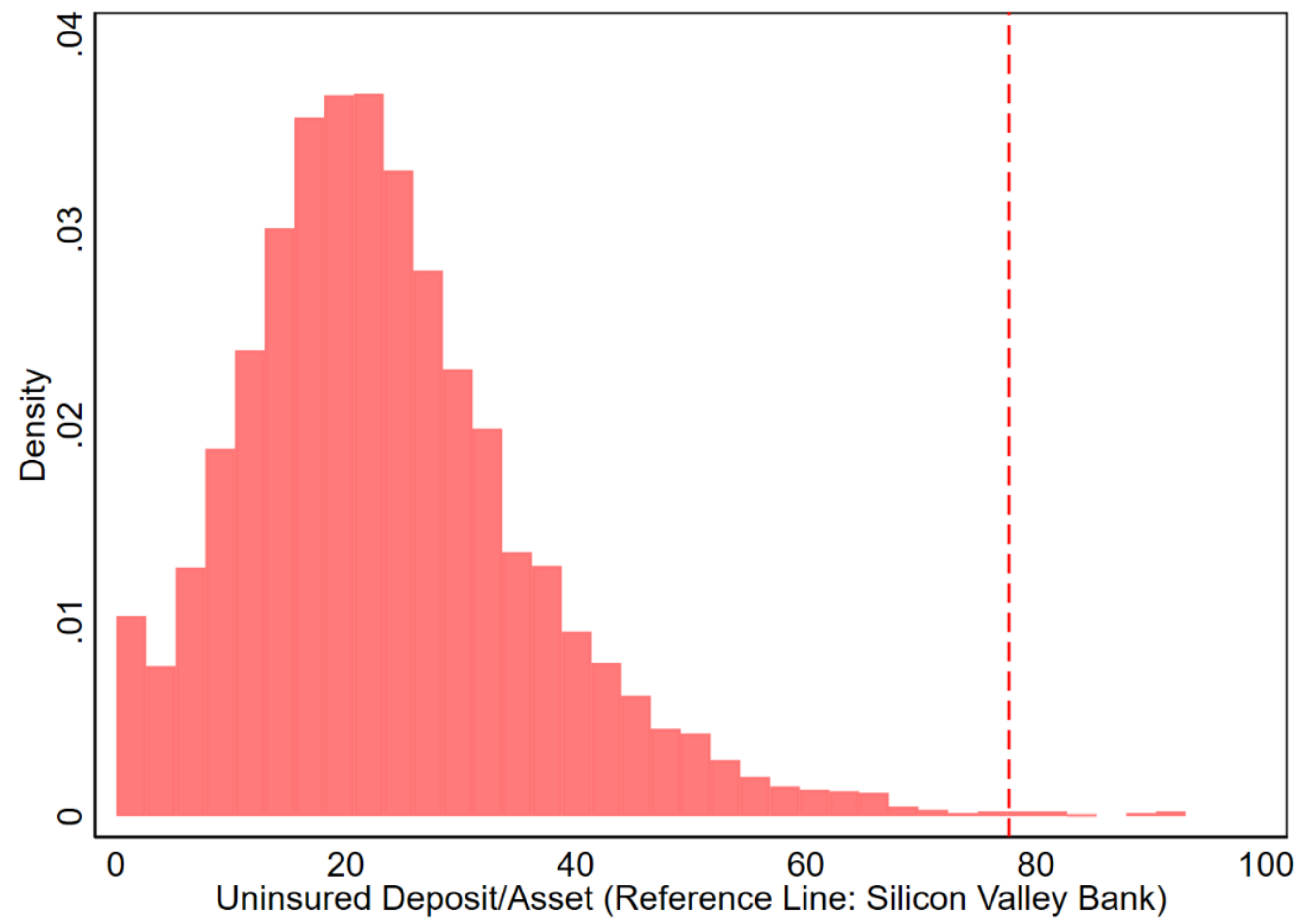
Uninsured Leverage = 90/100 = 90%



"Flight Risk": Uninsured Leverage

Assets	Liabilities
Loans = 100	Uninsured Deposits = 90
	Insured Deposits = 5
	Equity = 5

$$\text{Uninsured Leverage} = 90/100 = 90\%$$



Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"…

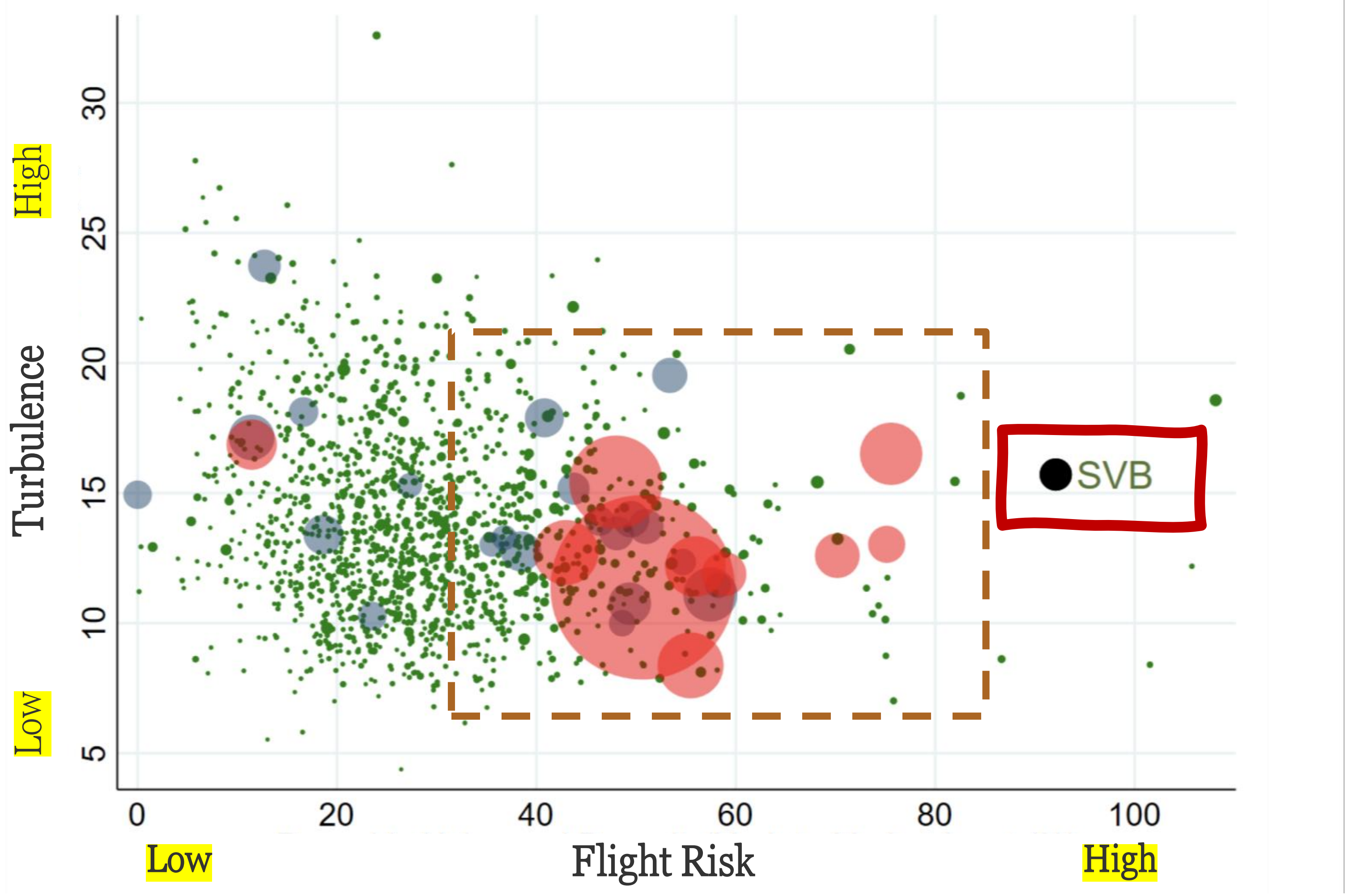
Flight Risk vs Turbulence

- r ↑
- Equity ↓
- Uninsured Depositors ↑

"Solvency Run" Equilibrium

Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"…

Flight Risk vs Turbulence



Source: Jiang, Matvos, Piskorski, Seru (2023): “Monetary Tightening, MTM losses”…

Financial Regulation?

- Liquidity injections …yet banks continue to fail
  - ✓ First Republic
  - ✓ …
  - ✓ Republic First
  - ✓ …

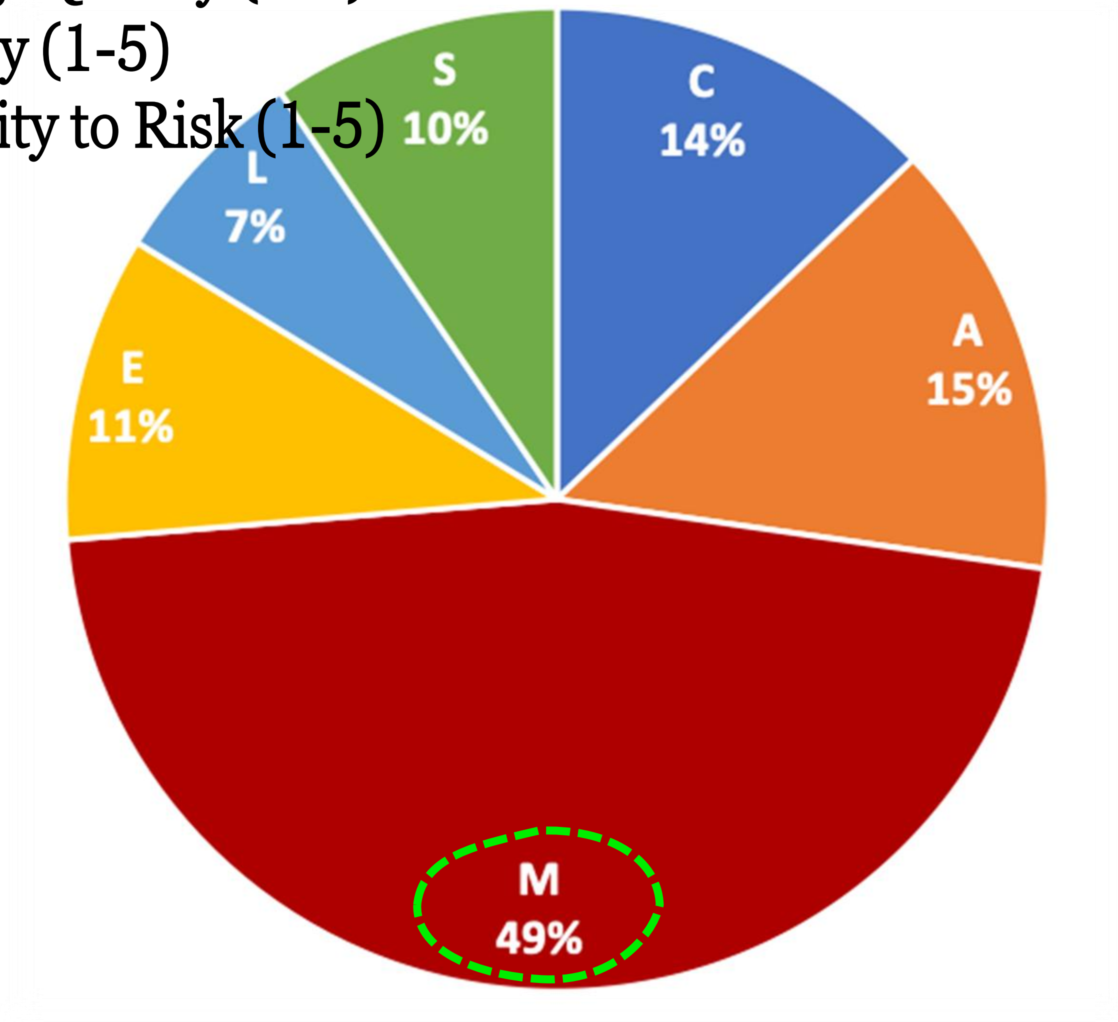
"Liquidity Run"

LOLR → LOIR

Too Much Discretion?

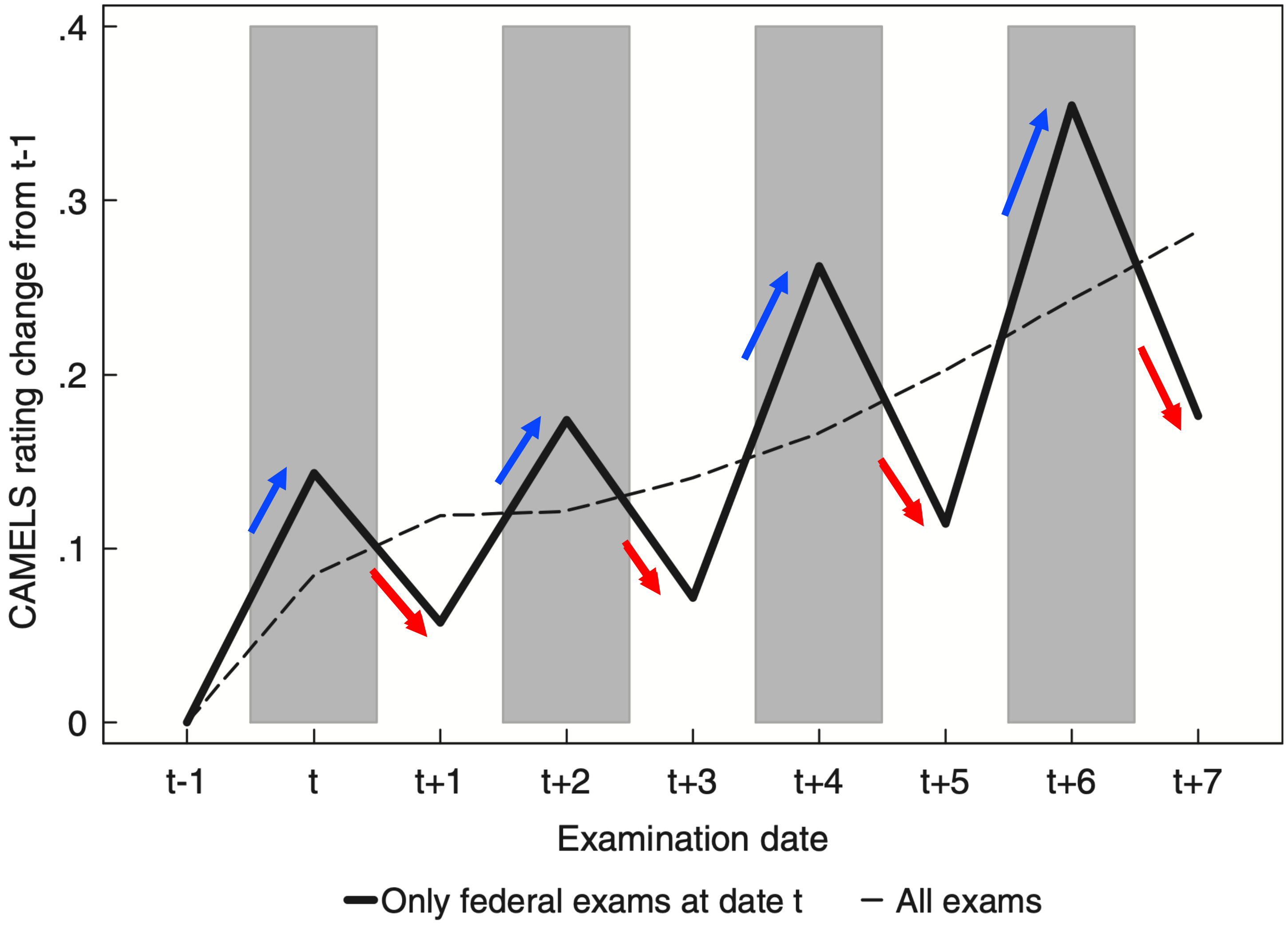
C: Capital Adequacy (1-5)
A: Asset Quality (1-5)
M: Management Quality (1-5)
E: Earnings Quality (1-5)
L: Liquidity (1-5)
S: Sensitivity to Risk (1-5)

Composite CAMELS Score: (1-5)



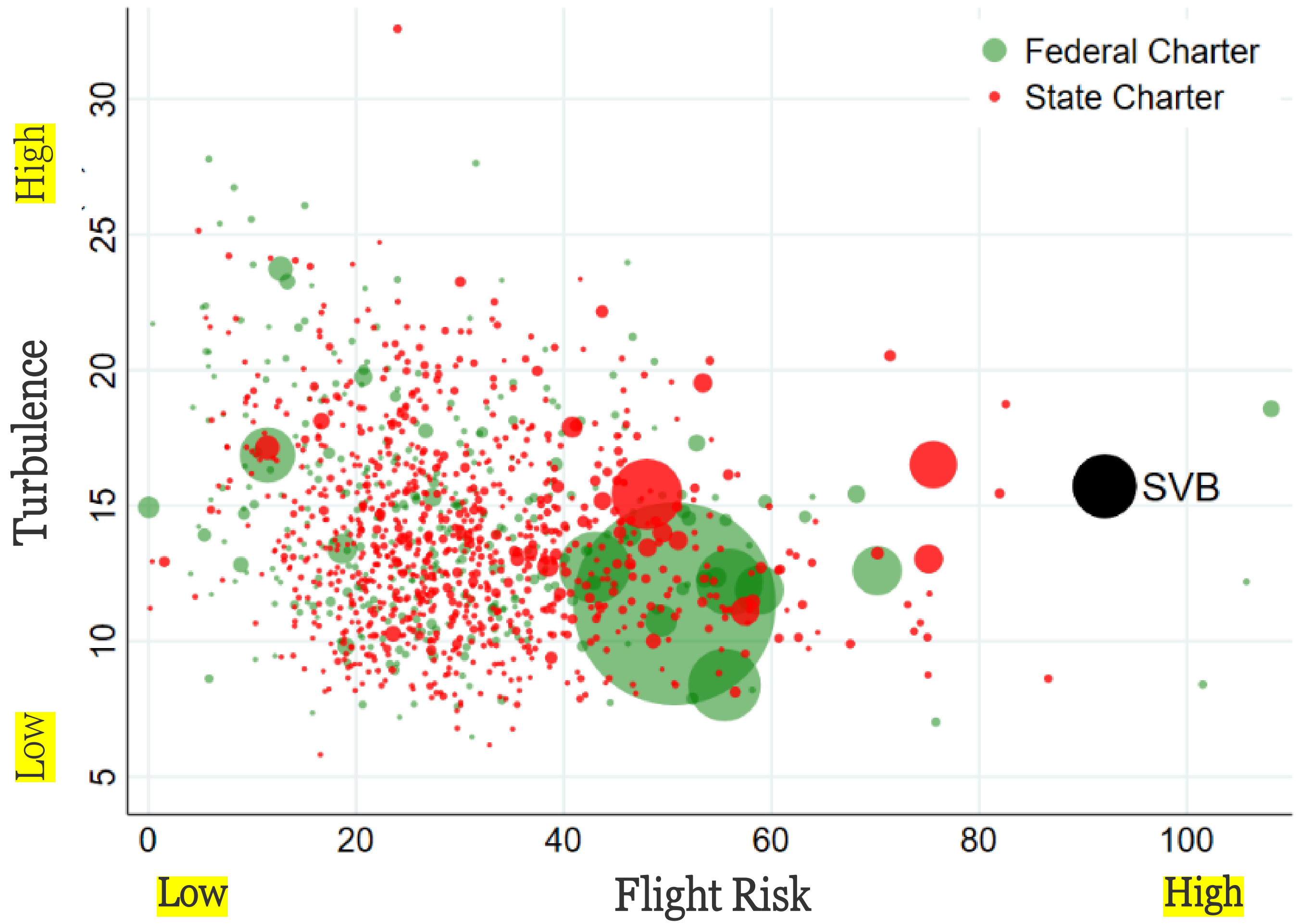
Source: Agarwal, Morais, Seru and Shue (2024): "Noisy Experts…"

Does Discretion Matter?



Source: Agarwal, Lucca, Seru and Trebbi (2014): "Inconsistent Regulators…"

Does Discretion Matter?



Source: Jiang, Matvos, Piskorski, Seru (2023): "Monetary Tightening, MTM losses"…

Now What?

LARGE Government support:

Insured Uninsured Depositors

Bank Term Funding Program

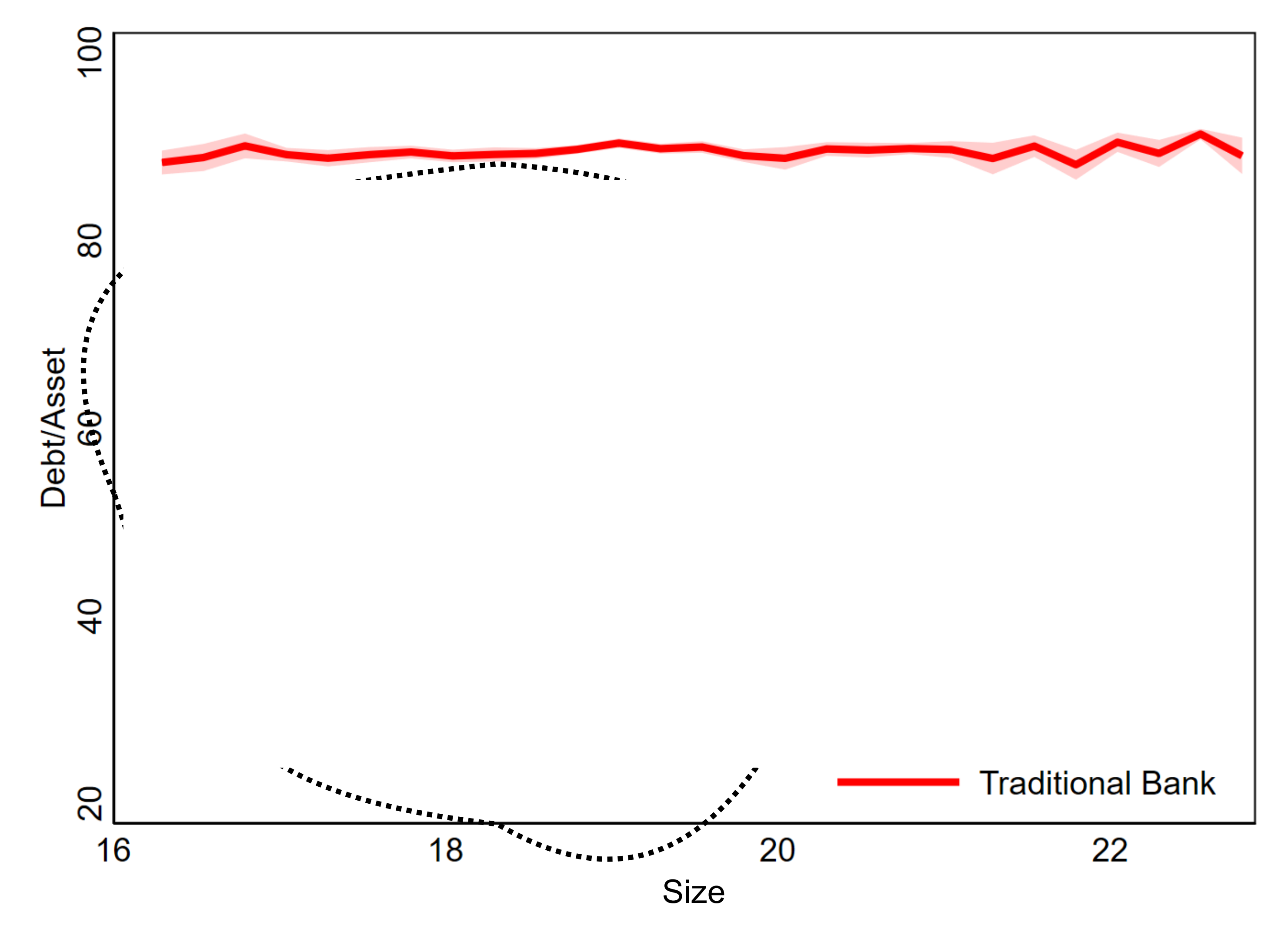
Mitigates short term risk…

…but losses remain.

S&L Crisis (1980s)

“Gambling for Resurrection”

Simplifying Regulation?

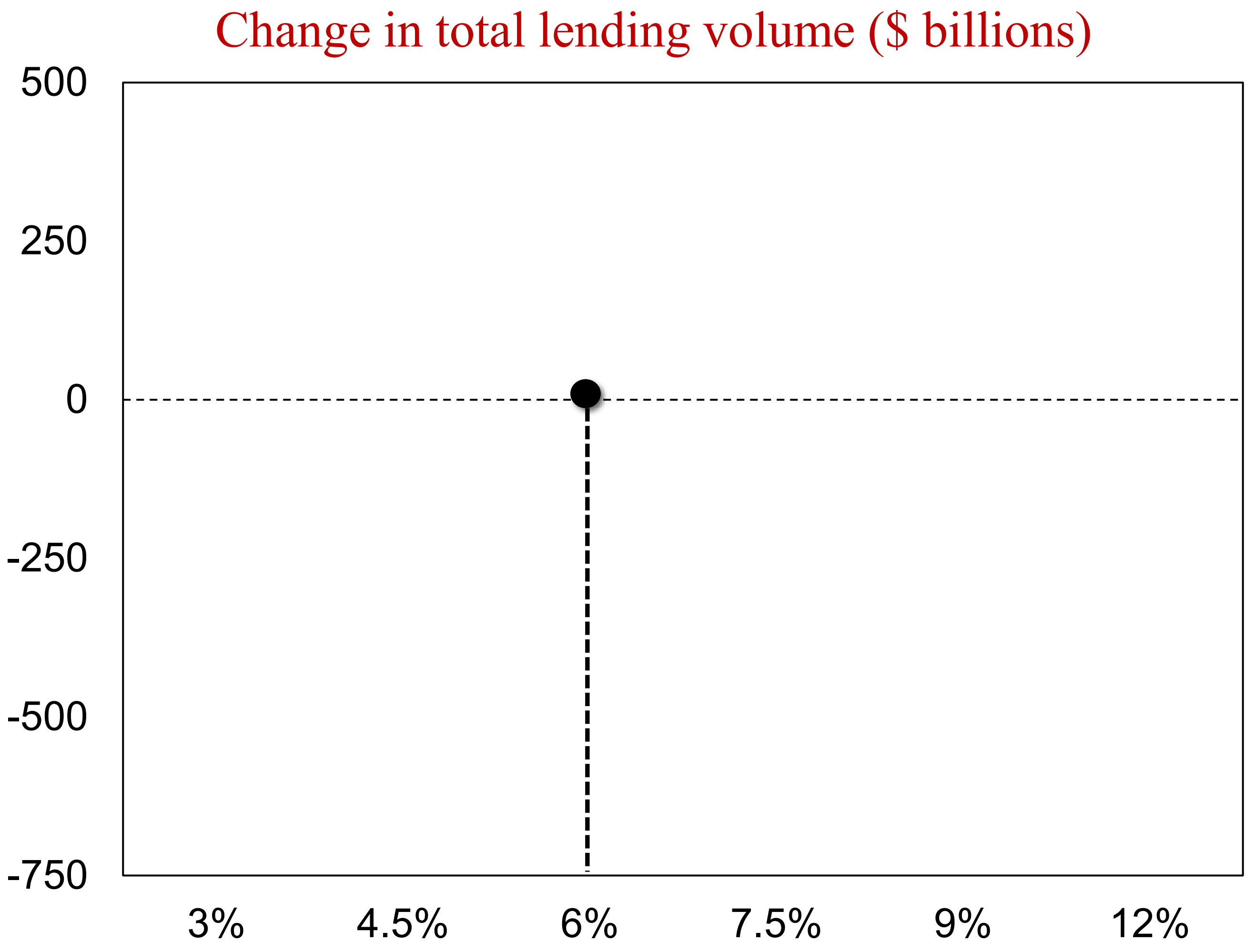


Source: Jiang, Matvos, Piskorski, Seru (2020): "Banking without Deposits"...

But doesn't higher capital requirement lead to drop in lending?

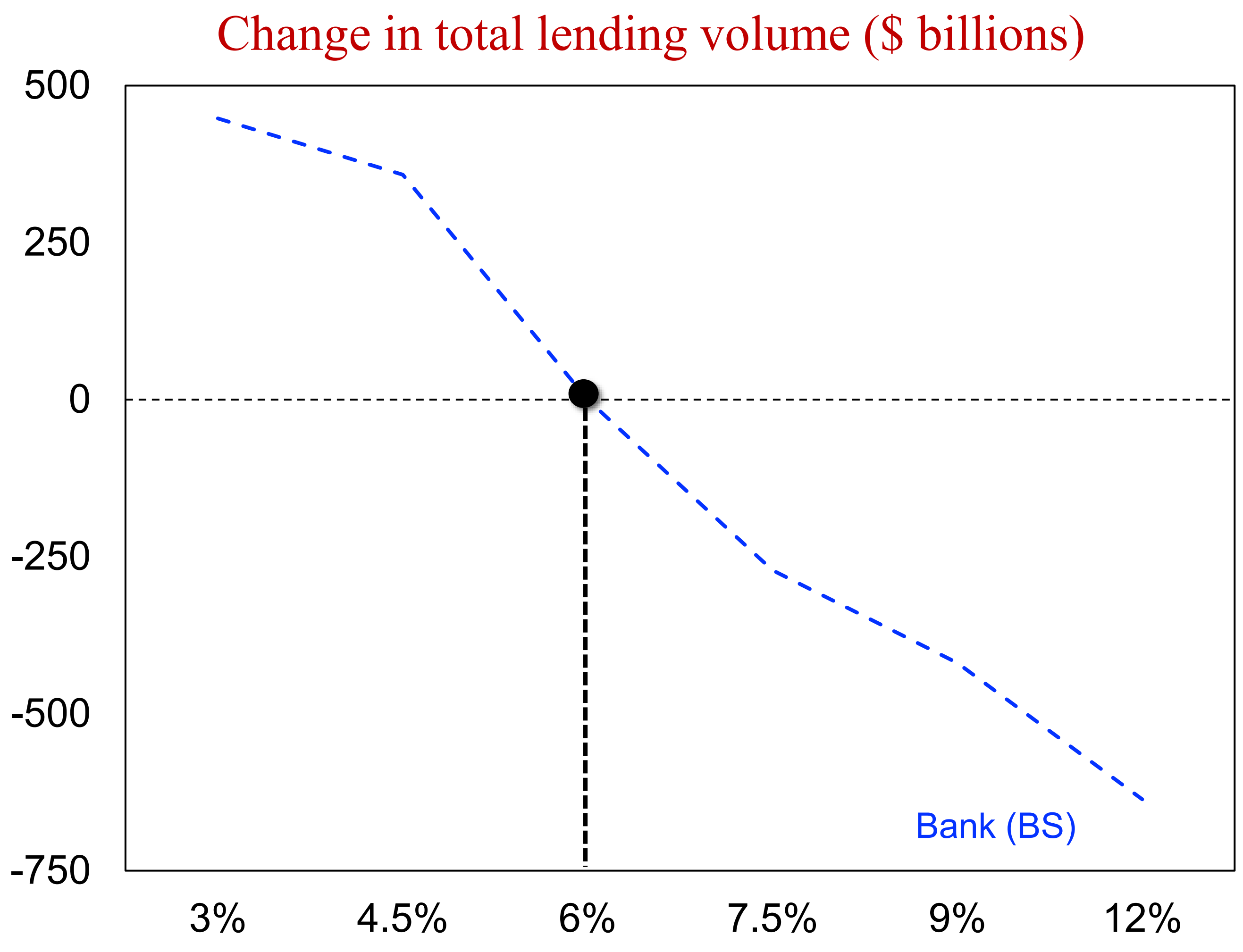
OTD

Private Credit



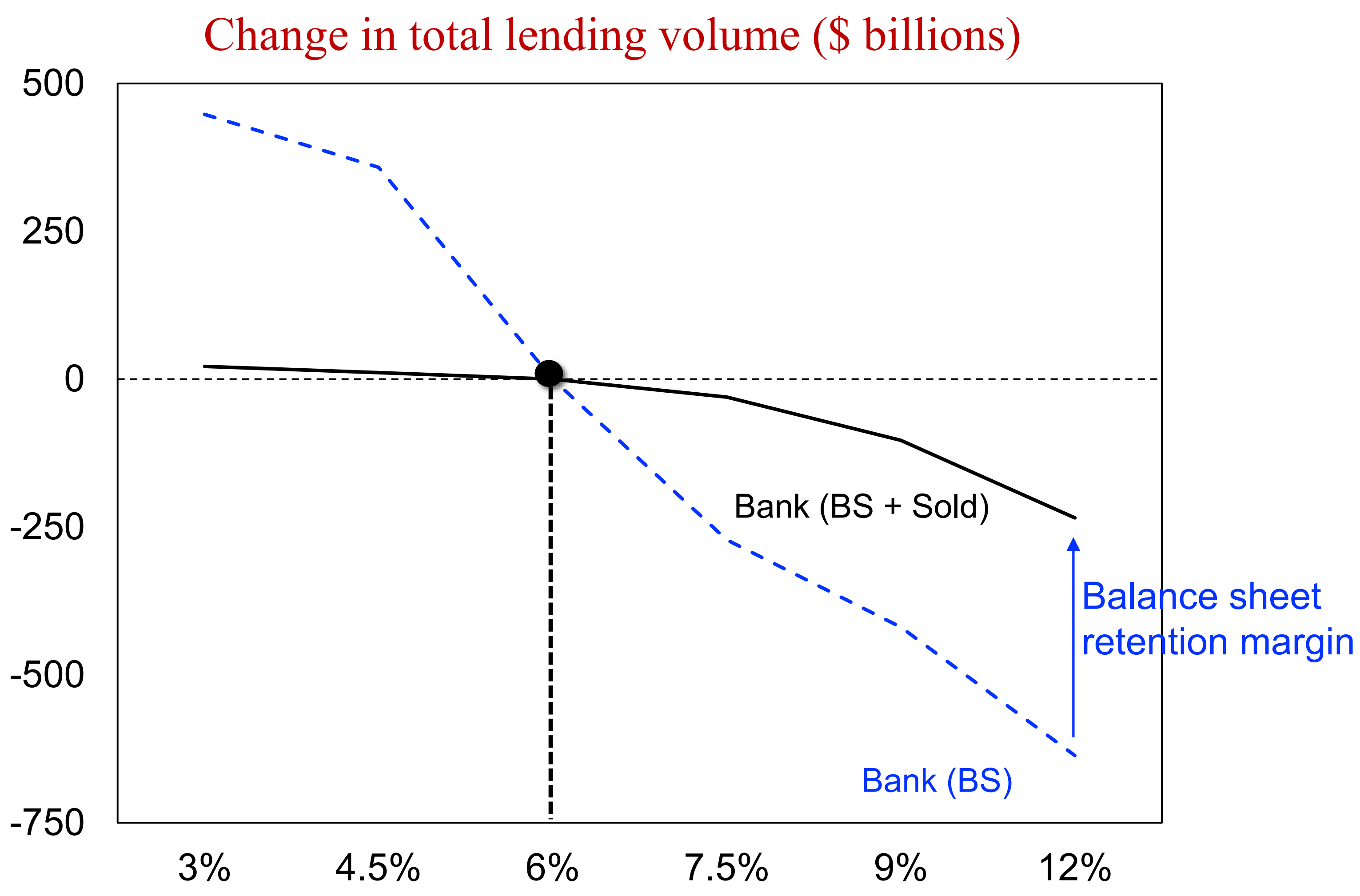
Source: Buchak, Matvos, Piskorski, Seru (2024): "Beyond Balance Sheets"...

But doesn't higher capital requirement lead to drop in lending?



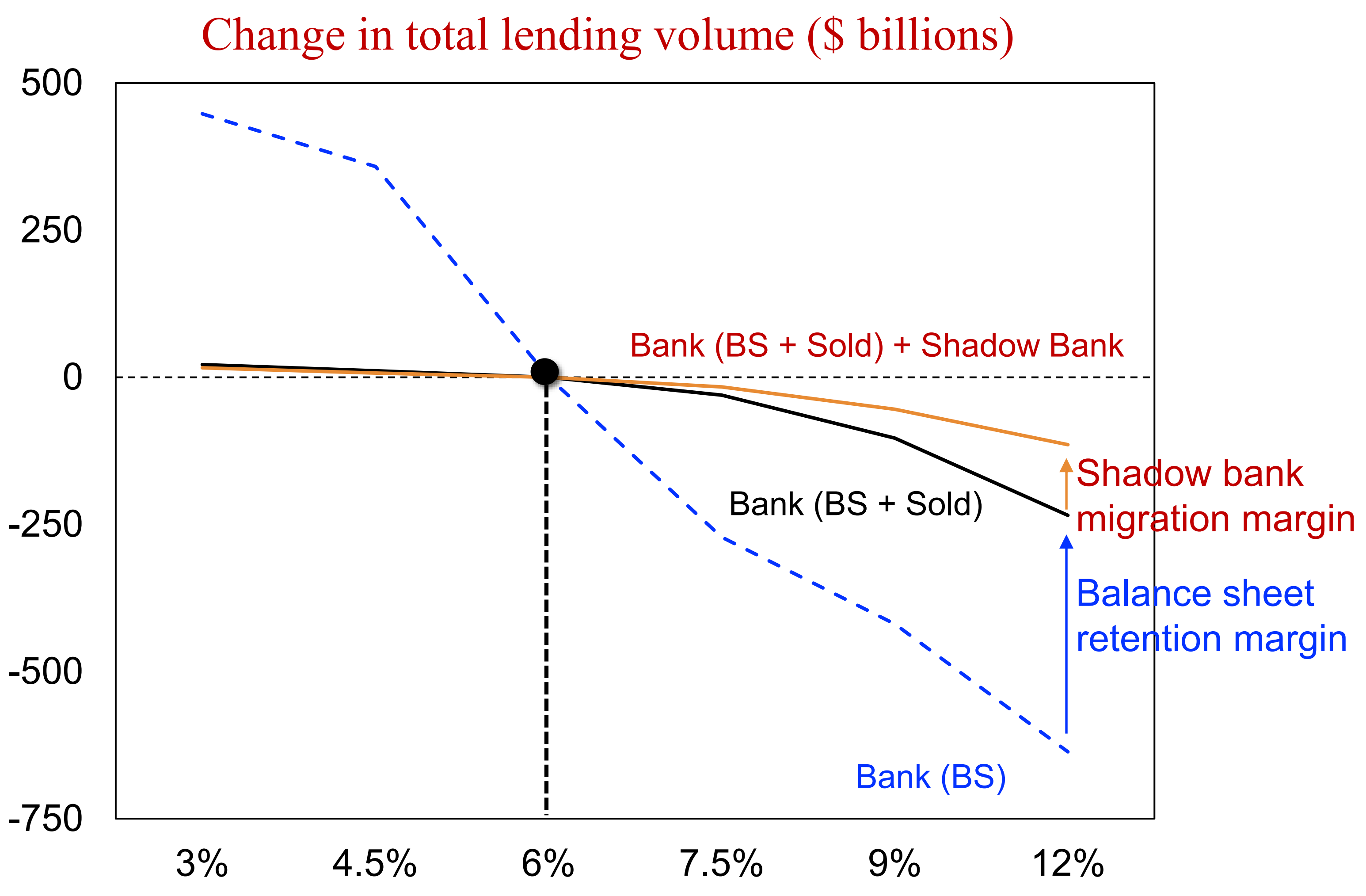
Source: Buchak, Matvos, Piskorski, Seru (2024): "Beyond Balance Sheets"…

But doesn't higher capital requirement lead to drop in lending?



Source: Buchak, Matvos, Piskorski, Seru (2024): "Beyond Balance Sheets"…

But doesn't higher capital requirement lead to drop in lending?

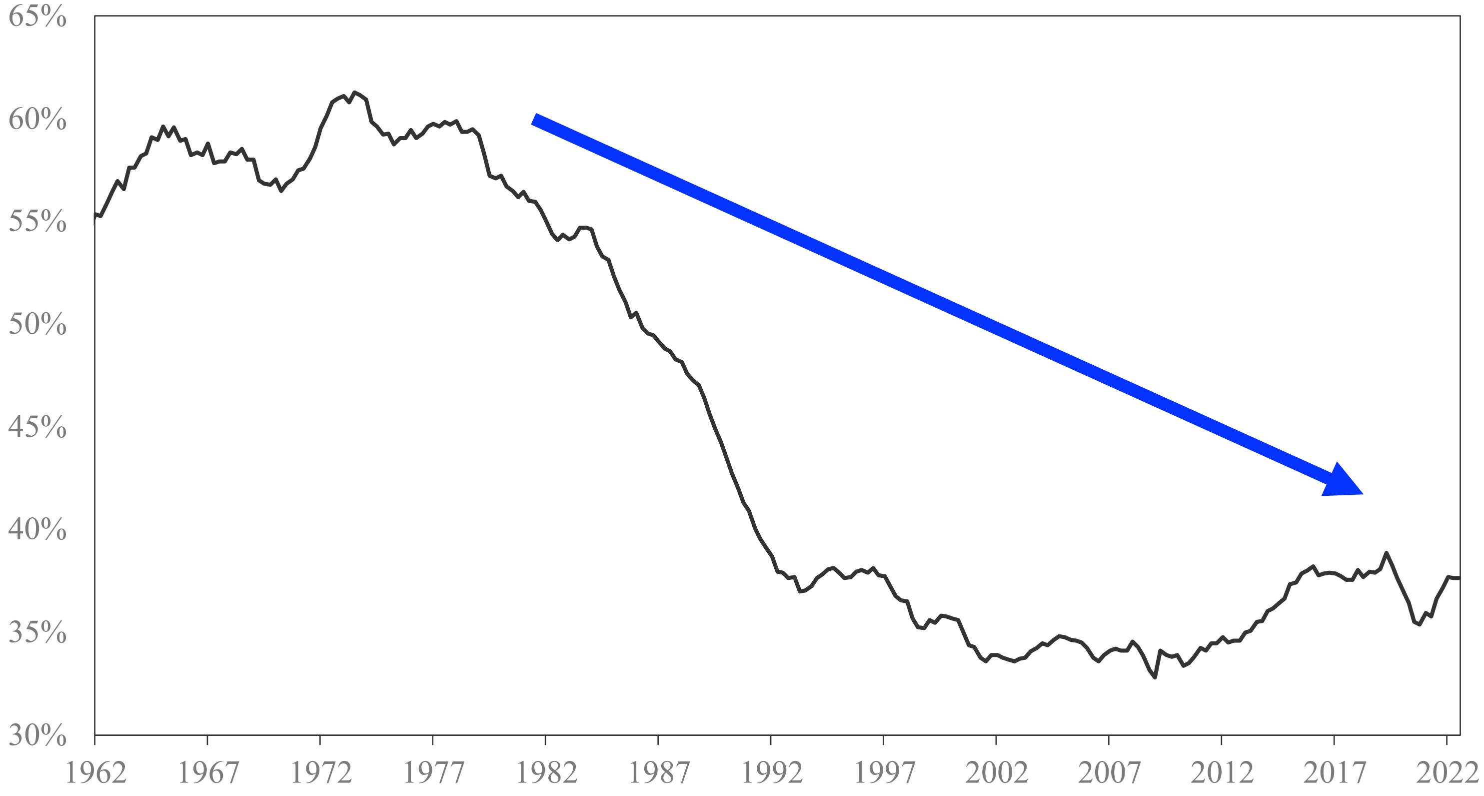


Source: Buchak, Matvos, Piskorski, Seru (2024): "Beyond Balance Sheets"…

Decline of Bank Balance Sheet Lending…

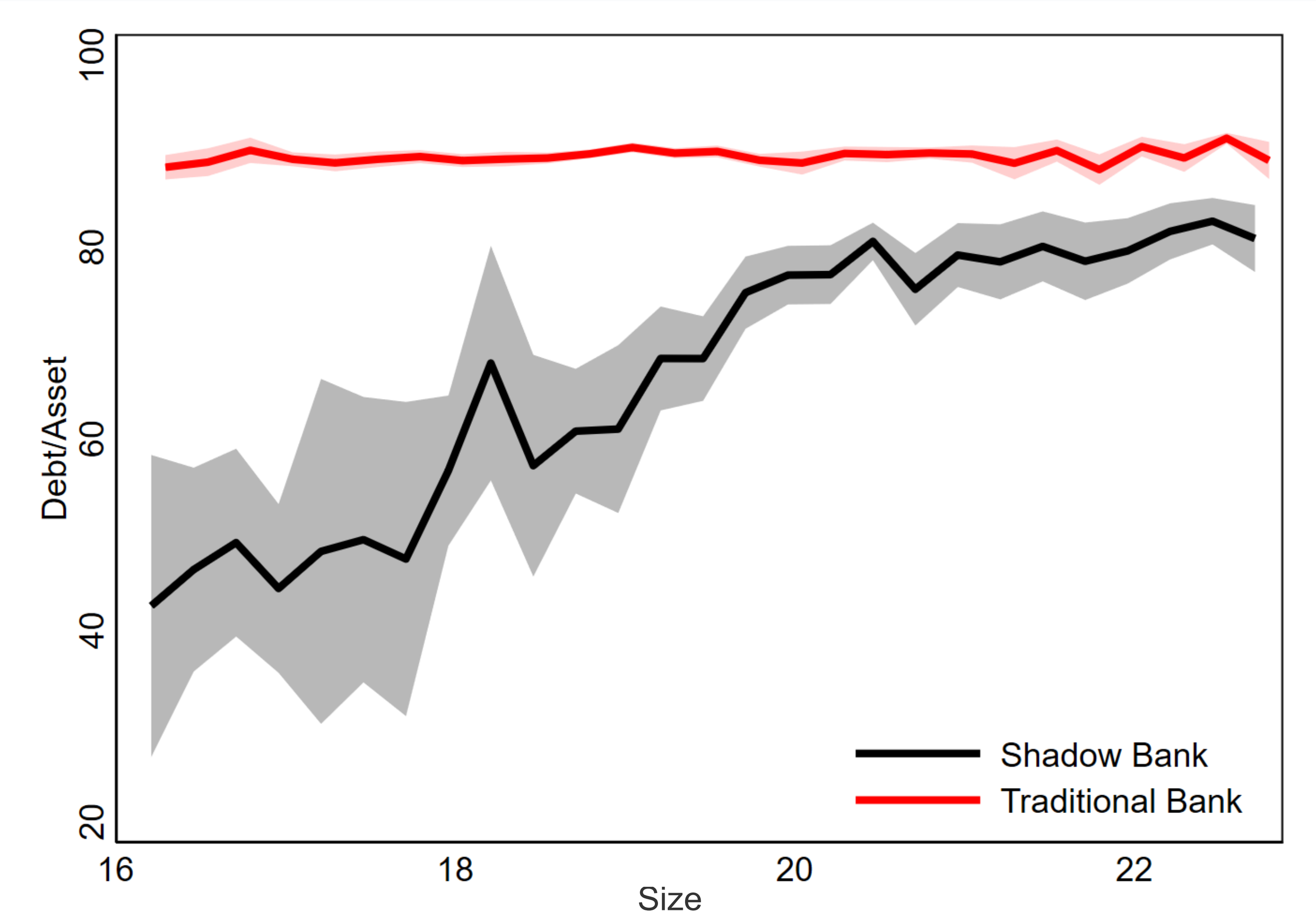
…and rise of Private credit

Bank balance sheet lending



Source: Buchak, Matvos, Piskorski, Seru (2024): "Secular Decline of Bank Balance Sheet Lending"…

Too Many Rules & Too Much Discretion? Simplifying Financial Regulation



SOMC Meeting: Looming Issues in the Financial System

November 7, 2025