F I S C A L   I M P A C T   R E P O R T

SPONSOR Soules **ORIGINAL DATE** 2/12/17 **LAST UPDATED** **HB**

SHORT TITLE Support Restoration of Glass -Steagall Act **SM** 25

ANALYST Martinez

ESTIMATED ADDITIONAL OPERATING BUDGET IMPACT (dollars in thousands)

	FY17	FY18	FY19	3 Year Total Cost	Recurring or Nonrecurring	Fund Affected
Total	NFI	NFI	NFI	NFI	NFI	NFI

(Parenthesis ( ) Indicate Expenditure Decreases)

SOURCES OF INFORMATION
LFC Files

Responses Received From

Regulation and Licensing Department (RLD)
Economic Development Department (EDD)

SUMMARY

Synopsis of Bill

Senate Memorial 25 proposes the New Mexico Senate request the congressional delegation for New Mexico support the passage of an American economic recovery policy that would include restoration of the Glass-Steagall Act, imposing a separation between the financial operations of investment banking and traditional commercial banking. SM 25 further requests the New Mexico delegation support a national banking system and credit policies that would finance industry and infrastructure projects and to support rebuilding and investing in the United States' space program and the development of fusion power.

FISCAL IMPLICATIONS

There are no anticipated direct fiscal implications for the Financial Institutions Division (FID) of the Regulation and Licensing Department (RLD) as a result of SM 25.

The Economic Development Department (EDD) states that the actions supported by the memorial could result in potential income to New Mexico in the form of infrastructure and science and technology investment by the federal government.

SIGNIFICANT ISSUES

Reinstatement of provisions of the Glass-Steagall Act would potentially impact the daily operations of New Mexico state-chartered banks. RLD states that the following items should be considered when evaluating proposed measures to reinstate the separation of commercial banking from the securities business.

> One type of financial product that would most likely be affected by the reinstatement of provisions of Glass-Steagall would be "Repurchase Agreements" (also commonly referred to as "Repos.") Repos are generally thought of as a form of short-term borrowing for dealers in government securities. The dealer sells the government securities to investors, usually on an overnight basis, and typically buys them back the following day. The recent national financial crisis underscored the substantial role Repos fill in short term liquidity markets.
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> Repos funded significant portions of operations at many large investment banks, such as Bear Stearns and Lehman Brothers. As Bear Stearns' and Lehman Brothers' financial difficulties became more evident, other institutions reduced their credit lines, including their willingness to enter into Repos, or declined to lend to them altogether. As a result, they ran into greater financial difficulties, which in turn eventually led to governmental bail-outs in the financial sector. Regulators determined that some banks' excessive dependency on Repos for short term funding was a contributing factor in the volatility of financial markets.
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> While Repos may have played a sizable role in the recent financial crisis, the manner in which "big banks" or investment firms use Repos is often wholly different than the way in which community banks use them. Usually, if a community bank offers Repos, it is on an extremely limited basis to a few very large depositors as a way of collateralizing the funds over and above Federal Deposit Insurance Corporation (FDIC) insurance coverage. The FDIC is a United States government corporation created by the Glass-Steagall Act of 1933. It provides deposit insurance, which guarantees the safety of deposits in member banks, currently up to $250 thousand per depositor per bank. This works for non-public depositors in much the same way as securities are pledged for protection of public funds. Community banks rely on these Repos to maintain consumer confidence and keep local deposits from leaving the community in which they are based simply to insure those depositors against potential losses, however slim the odds of failure are.

As with any proposed financial reform, FID asserts consideration should be given to "right-sized" regulation, taking into account the wide range of financial institutions available to our citizens. It is imperative to value the differences between types of financial institutions when considering the impact of banking legislation.

OTHER SUBSTANTIVE ISSUES

RLD notes that SM 25 includes references to a potential for a return to a national banking and credit system (and/or policies) similar to those espoused by such historical luminaries as Alexander Hamilton, John Quincy Adams and others. SM 25 points to the first and second banks of the United States as instruments that served our country's early economic growth and infrastructure development. Most historians would agree that Hamilton's intended purposes for the original Bank of the United States were to lend the government money and safely hold its deposits, give Americans a uniform currency, and promote business and industry by extending credit. Today, these same functions are provided by the Federal Reserve Bank and others in the current banking system.

Recognition must be given to the fact that conversion to a national banking system has the potential to disrupt the current dual charter system, which provides necessary flexibility to smaller financial institutions and the communities they serve. Such a fundamental change to our nation’s banking system may cause unintended consequences of driving smaller financial institutions out of business, many of which are state chartered and locally owned. These financial institutions provide a valuable alternative to the “too big to fail” institutions largely responsible for the most recent economic crisis. Many in the banking and financial industry have acknowledged that regulatory pressures that were imposed in response to the recent financial crisis have had a disparate impact on small financial institutions.

JM/al