

## INDEX

Page numbers for entries occurring in figures are followed by an *f*, those for entries in notes, by an *n*, and those for entries in tables, by a *t*.

- AAA ratings: guarantees and, 235n32; for mortgage-related securities, 156–57, 185; risks hidden in, 124–25, 156–57, 222, 296n29
- Abernathy, Wayne A., 234n23, 274n61
- ABS. *See* asset-backed securities
- Acemoglu, Daron, 319n10
- accountability in banking, lack of, 199, 215, 228
- accounting: mark-to-market (fair-value), 124, 258n26; mark-to-model, 268n21; tricks, 268n23
- accounting rules, 85–86; for derivatives, 71, 85–86, 260n42, 266n11, 266n13; discrepancies between systems, 84f, 85–86, 266n11, 267n15, 267n18; GAAP, 84f, 85–86, 266n11, 267n15, 267n18; IFRS, 84f, 85–86, 266n11, 266n13, 267n15, 267n18; netting in, 85–86, 267nn15–17; and off-balance-sheet entities, 83–84, 257n17, 266n7, 266n11; stock options in, 214
- Acharya, Viral V., 234n27, 236n32, 243n28, 248n3, 255n3, 257n17, 259nn32–33, 261n45, 262n57, 276n8, 281n9, 284n22, 288n11, 289n16, 291n35–36, 296n29, 300nn48–49, 305n25, 309n47, 313n66, 325n55, 331n22, 335n53, 336n55
- Acheson, Greame G., 242n22
- Ackermann, Josef: 5, 97, 120, 121, 232n18, 280n2, 282n12
- acquisitions: in financial crisis of 2007–2009, 89; growth in number of, 89. *See also* concentration; mergers
- Adams, Franklin Pierce, 46
- addiction, to borrowing, 43–45, 130, 162–63, 165, 173, 175, 241n16
- adjustable-rate mortgages (ARMs), 34, 160, 243n2, 298n44
- Advisory Scientific Committee (ASC) of the European Systemic Risk Board, 264n70, 279n25, 286n11, 289n18, 304n11, 304n19
- Agarwal, Sumit, 254n45
- Ahamed, Liaqat, 294n12
- AIG: credit default swaps at, 69, 73–74, 255n1, 259n34, 334n44; government bailout of, 69, 74, 88, 90, 161, 219, 260n35, 288n14; as systemically important financial institution, 90
- airline industry: bankruptcy in, 37, 156, 245n12; safety standards in, 206, 327n64
- Aitken, James, 301n55, 317n88
- Akerlof, George A., 252n33, 296n30
- Alesina, Alberto, 298n39

- Alessandri, Piergiorgio, 242n20, 242n22, 243n27, 292n41, 308n44
- Allison, Herbert M., 270n31, 270n33, 283n17, 284n29, 285n32, 286n38, 290nn28–29, 309n50, 333n40
- Americans for Financial Reform, 327n66
- Amsterdam Bank, 250n16
- Andersen, Hans Christian, “The Emperor’s New Clothes,” 1–2, 230n7
- Anderson, Ronald W., 290n29
- Ang, Andrew, 309n49, 336n55
- Angelini, Paolo, 310n51
- anti-regulation ideology, 204, 214–15
- “anything but equity” approach, 187–88
- Apple: book value of, 268n21; borrowing by, 8, 30, 140, 234n26; dividends of, 29; equity of, 98, 101, 275n62; market value of, 101, 269n29; retained earnings of, 173
- arbitrage, regulatory, 288n10, 335n53
- arbitrage opportunity: definition of, 103; as money machine, 103, 276n9
- Argentina: bank runs in, 273n46, 333n39; currency board of, 294n15, 333n39
- Armitstead, Louise, 289n16
- ARMs. *See* adjustable-rate mortgages
- Asia, banking crises of 1996–1998 in, 65, 66. *See also specific countries*
- asset(s): in balance sheets, 48–49, 48f; of largest companies in world, 89, 269n29; lending versus trading of, by banks, 86, 267n19; ratio of equity to, history of, 31, 64, 178, 181, 311n55; total, of banking sector, 60; transformation of, by banks, 250n17
- asset-backed securities (ABS), 255n2
- asset sales: deleveraging through, 64, 175, 257n19, 306n30; by financial institutions, contagion in, 63–65, 257n16
- auditors, conflicts of interest of, 128, 286n40
- Australia: deposit insurance in, 243n25; neutralization of tax penalty for equity funding in, 140
- auto industry: bankruptcy process in, 37–38; car safety in, 73, 262n52; U.S. bailout of, 8, 235n29
- Avdjiev, S., 313n65
- bad bank, 238n38, 253n39, 302n5, 305n18, 318n3, 318n7
- Bagehot, Walter, 297nn35–36
- bailouts: of auto industry, in United States, 8, 235n29; bank borrowing and, 8–9, 11–13; of corporations, 8; costs of, to society, 82, 137, 146, 193, 318n7; costs of, versus costs of failure, 78, 139; debate over, 74–78, 138; disguised as liquidity support, 158; government reasons for using, 90, 172, 270n36; guarantees in, 11, 137, 236n38, 237n41; hybrid securities in, 187, 315nn77–78; legislative bans on, 138, 139, 289n18; lingering questions about, 2; off-balance-sheet entities in, 83–84; profits earned from, claims about, 209, 329n10. *See also specific countries and institutions*
- Bair, Sheila, 177, 229n5, 231n16, 237n38, 238nn47–48, 243n2, 245n10, 246n16, 254n43, 262n57, 262n62, 269n30, 274nn54–55, 281n9, 288n13, 304n13, 306n27, 311n53, 315n78, 327n62, 327n64
- balance sheets, 47–49, 83–87; in approaches to controlling risk, 87–88; assets in, 48–49, 48f; book values in (*See* book values); of corporations, 27, 27f, 28, 241n12; derivatives in, 71, 260n42; “fortress,” 83–87, 266n6; under Glass-Steagall Act, 47–49, 48f; of home owners, 18, 19f, 20, 20f, 23; liabilities in, 48, 48f, 248n4; off-balance-sheet commitments and, 83–84, 124, 257n17, 266n7; recognizing losses in, 87, 114, 268n21, 279n25; of sole proprietorships, 24, 25f. *See also* accounting rules
- bank(s): benefits to economy provided by, 3, 49–51, 148–49, 231n14; condition of (*See* fragility of banking system; safety, bank; stability, financial); effects of competition on, 145, 172, 176, 181, 200, 285n30, 291n37, 304n17; history of, 51–54, 248n2, 248n3, 248n5, 248n6, 248n8, 249n16, 250n18, 251n26, 251n28, 252n36, 253n38, 253n40, 253n41, 256nn7–8, 269n25, 269n27, 271n39, 272n45, 273n46, 273n50, 292n2, 293nn7–9, 294n15, 295n19,

- 321n30; jargon of, impenetrability of, x–xi; legal definitions of, in United States versus Germany, 308n47; as limited-liability businesses, 30–31; liquidity problems of (See liquidity problems); mystique of, 2, 230n6; size of (See size); solvency problems of (See solvency problems); as source of funds for government and politicians, 193–94, 200–203, 205, 213; trustworthiness of, 50, 153, 249n11. *See also specific bank activities and bank types*
- Bank Act of 1844 (UK), 293n9
- bank book, 258n26, 303n6, 312n62, 312n64
- bank capital. *See* capital
- bankers and banking experts: on capital regulation, 6–7, 97, 169, 221–22, 265n5, 275n2; convenient narratives used by, 209–12; on differences between banks and other corporations, 110; on financial crisis of 2007–2009 as fluke, 3, 230n9; on fragility of banking system, 83, 148–49, 164, 212; on implicit guarantees, 235n30; income of (See compensation); on international competition, 194–95, 199; on “level playing fields,” 10, 194, 321n26; media coverage of, 1; mistakes admitted by, 3, 4, 230n8, 232n17; “other people’s money” used by, 215–17, 333n36; in regulatory capture, 203–5; on return on equity, 100–101, 115; risk assessment by, problems with, 73; scrutiny of claims by, lack of, 1, 2; on “unintended consequences,” 3, 9–10, 230n10
- bank failures. *See* failures
- Bank for International Settlements (BIS), 256n9, 257n15, 257n18, 258n21, 279n25, 299n46, 304n19, 305n20, 313n65, 323n38
- bank holding companies, versus investment banks, 93, 138, 286n1
- Bankia, 74
- Banking Act of 2009 (UK), 289n18
- banking crises: 1940–1970, 65, 148, 258n22; of 1970s, 65, 258n23; of 1980s–1990s, 56, 65, 88, 91, 253n41, 269n26; of 2000s, 258n24; claims about inevitability of, 148–49; contagion in, 61–67; credit-worthiness assessments in, 56; delays in dealing with, 171–72; real estate finance in, 56; sovereign debt in, 240n1; sovereign default in, 202. *See also* failures; *specific crises*
- banking regulation: activity restrictions in, 46, 47; costs of, to banks versus society, 82, 97, 265nn4–5; geographic restrictions in, 88, 202, 269n25; history of international coordination of, 96; implementation of, delay tactics in, 265n3, 265n4; implementation of, speed of, 169–70; and international competition, 194–99; lobbying on (See lobbying); objectives of, 81–82, 90–91, 217, 219; reasons behind need for, 4, 81–82, 90–91, 214–17, 265n2; size restrictions in, 89, 270n33; strategies for preventing bank failures in, 218–24; undoing of through competition with nonbanks, 96 (See also deregulation). *See also specific activities, agencies, laws, and regulations*
- banking textbooks: false statements, 115–16; standard terms used in, 51, 158, 166. *See also* liquidity transformation; maturity transformation (mismatch)
- bank lending: beneficial to economy, 49–51, 148, 152, 248n8; to governments, 200–203, 240n1; impact of regulation of bank borrowing on, 5–7, 232n18; impact of capital regulation on, 97, 99, 169, 222, 274n59; limits on amount of individual loans, 88, 268n24; liquidity transformation through, 155–56, 158–59, 250n17; maturity transformation through, 51, 158; origins of, 150; sources of funding for, 48–49, 51–52, 173; standards for, 30, 49–50, 242n19 (See also creditworthiness assessments); versus trading assets, in bank activities, 86, 267n19; undesirable, 233n18. *See also* bank loans; borrowing
- bank licenses, value of, 291n37
- bank loans: as percentage of bank assets, 86, 267n18, 292n1; risks of, 55–59, 88; selling of (See securitization). *See also* bank lending
- banknotes: current system of, 150, 151, 294n14; history of, 149–50, 151, 250m18, 293nn6–9, 294n15

- Bank of America: balance sheet of, 85, 267n15; book value versus market value of, 87, 268n22; debt rating of, 235n31; losses by shareholders of, 108; mistakes admitted by, 230n8, 232n17; questions about solvency of, 273n51, 304n13, 305n19; settlement of litigation on derivatives of, 108, 277n16; value of debt of, 12
- Bank of England: banknotes of, 149–50, 293n6, 293n9; liquidity injections by, 256n13, 257n14; runs on, 150, 295n19; views on reform at, 230n6, 325n53
- Bank of France, 192–93
- Bank Restructuring Act of 2010 (Germany), 289n18
- bank runs. *See* runs
- bankruptcy, 35–38; in dark side of borrowing, 35–38; history of practices in, 244n4, 244nn6–7, 245n11; origins of term, 148, 292n2. *See also* default; *Konkurs*
- bankruptcy, of businesses, 36–38, 245nn12–13; conflicts of interest in, 141; costs for borrowers, 36, 140–41; costs for creditors, 36; costs for third parties, 36–37, 141, 245n9; courts, 141, 247n19; delayed filings for, 246n19; derivatives in, 164, 227, 236n35, 301n55, 336n57; disruptions caused by, 36–38; international differences in treatment of, 37, 245n11; laws on, 37, 245n11, 246n19; limited liability in, 26; liquidity problems in, 38–40; net positions in, 267n17; as normal in market economies, 38; repo agreements in, 164, 227, 236n35, 300n54, 301n55, 336n57; swaps in, 236n35; traditional purpose of, 37. *See also specific businesses*
- bankruptcy, personal: liquidity problems in, 38–39; sole proprietorships in, 25; underwater mortgages in, 21, 240n4
- Bankruptcy Code, U.S., 1978 reform of, 245n11, 246n19
- bank transfers, 49, 150
- Barclays: actual return on equity of, 283n17; contingent convertible bonds of, 188, 317n84; in LIBOR scandal, 208; target return on equity of, 120, 122, 283n17
- Barings Bank, failure of, 55, 70–71
- Barnier, Michel, 194
- Barofsky, Neil, 230n6, 245n10, 260n35, 288nn13–14, 306n26, 319n9, 329n9
- Barth, James R., 248n2, 269n28, 284n27, 325n50, 325n54, 331nn20–21, 336n54, 336n60
- Barth, Mary E., 258n26
- Bartlett, Steven, 234n24, 274n61
- Basel (Switzerland): dye factory fire near, 286n2; negotiations named after, 96
- Basel Accords (rules for banking regulation and supervision): history of, 96; implementation of, 302n2; pillars of, 312n62, 313n64. *See also* Basel I; Basel II; Basel III
- Basel Committee on Banking Supervision (BCBS): on funding costs, 275n3; on hybrid securities, 315n78; mission of, 233n22, 302n2; on resolution of failed institutions, 263n63; on risk-weighted assets, 183; on social costs of capital requirements, 309–10n51; on stricter limits on bank borrowing, 232n18; on systemically important financial institutions, 271n37; treatment of government debt, 323n35; version of capital regulation by, 273n52
- Basel I (1988): history of, 96; origins of capital regulation in, 96, 273n53; risk models in amendment to, 313n66
- Basel II (2004): history of, 96; hybrid securities in, 187; implementation of, 177, 273n53, 274n54, 307n38; risk-weighted assets in, 177, 183, 184–85, 312n64, 313n66; in United States, 177, 194, 274n54, 307n38
- Basel III (2011): bankers' claims about, 265n5; capital conservation buffers in, 189, 307n36, 317n87; cash payouts to shareholders and, 175; flaws of, 96, 169–70, 176, 178, 181, 186, 223–24, 310n53; history of, 96; implementation of, 96, 169–70, 175, 274n57, 307n36; and international competition, 194; levels of equity required in, 170, 176–78, 181, 189, 310–11nn53–54; leverage ratio regulation in, 177–78, 183, 235n28, 308n42; liquidity coverage ratio in, 92; lobbying on, 96, 97,

- 187, 194, 315n79; long transition period of, 169–70, 175; national politics in reception of, 194, 319n8; net stable funding ratio in, 272n42; risk-weighted assets in, 176–77, 183, 307n36, 312n64, 314n68, 323n35; social costs of equity requirements and, 180, 309n51; tiers of capital in, 307n36; in United States, 194, 307n36
- BCBS. *See* Basel Committee on Banking Supervision
- Bear Stearns: appearance of strength in, 87; asset sales by, 257n16; doubts about collateral of, 164, 301n57; flawed regulation in downfall of, 334n43; government bailout of, 72, 74, 90, 219, 238n48, 261n48, 326n58; incentives in compensation at, 284n27; JPMorgan Chase in bailout of, 72, 74, 219, 326n58; netting of derivatives at, 86, 267n17; as non-deposit-taking investment bank, 90; short-term debt of, 66; solvency problems of, 299n45; as systemically important financial institution, 90
- Bebchuk, Lucian A., 284n27, 285n35
- Bed Bath and Beyond, 30, 234n26
- Belgium: bank bailouts by, 11, 57, 192, 236n38, 253n39, 292n39, 318n3, 323n36; costs of bailouts in, 292n39; neutralization of tax penalty for equity funding in, 140
- Ben-David, Itzhak, 254n43, 254n45, 297n33
- Benston, George J., 252n29–30, 252n33
- Berger, Allen N., 242n20, 243n27, 290n29, 292n41, 308n44
- Berglöf, Erik, 253n35
- Bernanke, Ben, 11, 238n47, 246n16, 249n15, 253n38, 330n13
- Berra, Yogi, 109, 110, 129, 141
- Better Markets, 233n19, 237n42, 259n32, 265n4, 288n13, 327n66
- Bhagat, Sanjai, 284n24, 284n27, 285n35
- Bhide, Amar, 282n14
- Big Short, The* (Lewis), 60
- bills of exchange, as liquid assets, 272n45
- BIS. *See* Bank for International Settlements
- Black Rock, 257n16
- black swan risks, 261n50
- blanket guarantees, 139, 142–43, 146, 287n6, 291n30
- Blankfein, Lloyd, 230n8
- Bloomberg, data on Fed lending programs, 288n14
- BNP Paribas: formed by merger of Banque Nationale de Paris and Compagnie Financière de Paris et des Pays-Bas, 269n28, 324n45; liquidity problems of, 256n13
- boards of directors, corporate: conflicts of interest in, 126–27; in culture of ROE, 126–27, 285n32; focus of, 126; responses to price declines, 106, 277n13; responsibilities of, 285n32
- boards of directors, of Federal Reserve banks, 205
- Bolton, Brian, 284n27, 285n35
- Bolton, Patrick, 300n54, 306n29
- Bomhard, Nikolaus von, 327n65
- bonds: as liquid assets, 272n44; required return on, 107, 277n14. *See also specific types*
- bonuses: basis for, 114, 124, 125, 162, 284n24; delayed payments of, 127
- book values: in investment decisions, 102; irrelevance of, 112–14, 279n24; versus market values, 86–87, 112–14, 268nn20–21, 279nn24–25
- boom-and-bust developments, in financial crises, 56, 330n18
- booms, creditworthiness assessments during, 56
- Boot, Arnoud, 263n62, 269n30, 290n28
- Borges, Antonio, 321n30
- Born, Brookley, 325n51
- borrowing: as addictive, 43–45, 165, 220; bright side of, 31, 135; collateral in (*See* collateral); and cost of equity, 107–10; costs of, 102–5; dark side of, 31, 32–45, 135; debt covenants in, 141; default on (*See* default); distress in, 33, 41–43; interest rate for (*See* interest rates); leverage created by, 17, 19, 107–8; liquidity problems in, 32, 38–40; payment obligations in, 34, 35; and required return on equity, 107–10; risks from (*See* risk, in borrowing);

- borrowing (*continued*)  
solvency problems in, 40–41; standards for approving, 30, 49–50, 242n19
- borrowing, by banks, 4–13; capital requirements and (*See* capital regulation); costs for banks, as cheap compared to capital, 7–9, 100–101; costs for banks, impact of guarantees on, 9, 129, 130, 143, 235n32; costs for society, 8–9, 10, 33; default on, 8–9, 10–13; as factor in financial crisis of 2007–2009, 4–5, 11–12, 232n17; as funding source, 49; history of, 30–31; impact on lending, 5–7, 232n18; importance of regulating, 10–13; incentives for, 129, 130, 142–45, 220; interest rates on, 8–9, 129, 137–38, 288n14; investments funded by, 13–14; from money market, 48; move toward limited liability and, 30–31; need for stricter limits on, 4, 10, 13; opposition to stricter limits on, 4–10, 232n18; as percentage of assets, 7–8, 11, 30, 31; rat race, 163–65; with repos, 163–64; risks of, 13–14, 130; short-term (*See* short-term debt); subsidies for, 9, 129–30, 137–38, 139–40, 235n30
- borrowing, by businesses: from banks, 49–51; interest rates on, 104; for investments, 17–18; problems caused by burden of, 34–35; risk magnified in, 24–26. *See also* corporate borrowing
- borrowing, by governments. *See* sovereign debt
- borrowing, by individuals: interest rates on, 104; for investments, 17–18; reasons for, 17; rise of, 240n2. *See also* mortgage(s)
- Bove, Richard X., 230n6
- Boyd, John H., 249n12, 253n38, 289n15, 290n29, 293n3
- Brady, Nicholas, 313n68, 332n28
- Brady, Stephanie A., 266n10, 302n3, 309n47
- Braithwaite, Tom, 231n12, 312n63
- branches, bank, geographic restrictions on, 269n25
- Brandeis, Louis, 215, 333n36
- Brazil: banking crisis in, 258n22; indexed debt in, 276n6; reserve requirements in, 272n41
- Brealey, Richard A., 278n22, 315n74
- Brewer, Elijah, 291n31
- Britain. *See* United Kingdom
- British Bankers' Association, on regulation of bank borrowing, 5–6, 234n22
- brokerage houses, 46
- Brown, Sherrod, 270n33, 311n53
- Bruni, Franco, 321n30
- Brunnermeier, Markus K., 238n46, 300nn52–53
- Bryant, John, 250n19
- Buch, Claudia M., 232n18, 242n20, 243n27, 310n52
- budget, public, central banks and, 157
- Buffett, Warren, 71
- bugbears: definition of, 3, 224; in negotiations over banking regulation, 3, 5; Principle of Unripe Time as, 171–72; shadow banking as, 224–26; “unintended consequences” as, 3, 9–10, 224
- Bureau of Economic Analysis, U.S., 237n42
- Burnside, Craig, 289n16
- businesses: bankruptcy of (*See* bankruptcy); borrowing by (*See* borrowing); limited-liability, 25–26, 240n10. *See also* corporation(s); sole proprietorships
- Cabiallavetta, Mathis, 127, 285n36
- Cajas, solvency problems of, 304n19
- California: Japanese crisis of 1990s and, 258n25; nonrecourse mortgage clauses in, 240n5; scandals involving derivatives in, 71; troubled mortgages in, 245n10
- Calomiris, Charles W., 251n20, 301n56, 316n80, 330n16
- campaign contributions, by banks, 203, 205, 213, 324n46
- Campbell, John J., 240n6, 245n10
- capital (bank equity): book value of, 86–87; versus cash reserve, 6–7, 98; confusion about term, 6–7, 98; costs of, 7–8, 98, 100–102, 111–12, 115, 275n2; definition of, 6, 98; ratio of, to assets, history of, 31, 64, 178, 181, 311n55. *See also* capital regulation; leverage

- capital charges, confusion about term, 275n2
- capital conservation buffers, 189–90, 307n36, 317n87
- capital gains, taxation of, 282n15, 289n22, 289n24
- capital regulation (capital requirements), 94–99; bankers' claims about, 6–7, 97, 169, 221–22, 265n5; benefits to banks of, 94–95, 152–53, 170; benefits to society of, 82–83, 98, 130, 147, 149, 166, 180–81, 221; contingent convertible bonds and, 187–88; costs to society of, 180, 265n5, 309nn51–52; debate over, 95–99; definition of, 6, 94, 97; and economic growth, 97, 232n18, 274n59; European Union on, 170, 303n6, 315n79; expansion of scope of institutions subject to, 179–80; fallacies in debate on (*See* fallacies); after financial crisis of 2007–2009, 96, 309n50, 321n28; flawed claims about, as expensive, 7–8, 97, 180, 265n5, 275n2, 280n1; flaws in current and proposed, 13, 96, 220, 223–24; graduated system of, 189–90; history of, 95–96, 273n53; incentive effects of, 95; and international competition, 199, 321n26; and lending reductions, 97, 99, 169, 222, 232n18, 274n59; leverage in (*See* leverage ratio); lobbying on, 96, 97, 99, 310n51; need for existence of, 94–95, 191, 265n2; need for increased levels of, 176–83, 219–22; regulatory capture in, 204; reserve requirements confused with, 6–7, 97–98, 234n23, 274n61, 275n2; responses to violations of, 188–90; and return on equity, 115–16, 280n1; simple versus complex versions of, 273n52; for systemically important financial institutions, 265n5; target ratio versus amount of equity in, 175, 303n7, 306n31; tiers of capital in, 275n63, 307n36; timing of transition in, 169–72. *See also* Basel Accords
- Caprio, Gerald, 304n16
- Carbo-Valverde, Santiago, 290n28, 292n41
- career concerns, 127, 228, 319n9
- Carmassi, Jacopo, 262n62
- carry trades: definition of, 103; risks of, 103, 138, 281n9
- cartalist view of money, 294n10, 294n14
- Caruana, Jaime, 313n65
- cash: versus banknotes, 150; versus deposits, 153, 154, 294n10; versus interest-bearing assets, 153–55; need for, 154, 155
- cash payouts. *See* payouts
- cash reserve (reserve requirements): in balance sheets, 48; capital confused with, 6–7, 97–98, 234n23, 274n61, 275n2; versus capital requirements, costs and benefits of, 98; central banks funded by issuing, 272n41; costs of, to banks, 92; definition of, 6, 92, 97; interest on, 92, 271n41; international differences in, 272n41; liquidity coverage ratio and, 92; minimum requirements for, 272n41
- CBO. *See* Congressional Budget Office
- CDOs. *See* collateralized debt obligations
- CDSs. *See* credit default swaps
- Cecchetti, Stephen G., 257n17
- Center for Responsive Politics, 229n4, 326n60
- central banks: banknotes issued by, 150, 151, 294n15; collateral accepted by, 157, 297n36, 297n39; as funding source for governments, 157–58, 200; implicit subsidies provided by, through bank borrowing, 137–38; and inflation, 157–58; interest rates paid by, 200, 297n37; as “lenders of last resort,” 63, 93, 297n35, 318n2; limitations on activities of, 157–58, 297n39, 318n2; liquidity injections by, 39–40, 63, 179, 256n13; in monetary policy, 298n39; money of, 151, 295n16; and public budget, 157; reserve requirements in funding of, 272n41; response to financial crisis of 2007–2009, 63, 137, 256n13; and sovereign debt, ban on funding, 298n39; and sovereign debt, European, 170, 302n4. *See also specific central banks*
- CEOs, compensation of, 284n27. *See also* bankers
- CFTC. *See* Commodity Futures Trading Commission
- Chapter 11 of U.S. Bankruptcy Code: insolvency procedure under, 245n11; 1978 reform of, 245n11, 246n19

- checking accounts: availability of deposits in, as beneficial to economy, 49; interest rates on, 49, 248n6
- chemical pollution, parallels between risk in financial system and, 82, 97, 130, 199
- Chrysler Financials, 235n29
- Citigroup: balance sheet of, 85, 267n15; book value versus market value of, 87, 268n22; culture of ROE at, 126; debt rating of, 235n31; goals for growth of, 290n30; solvency problems of, 273n51, 304n13, 305n19; subsidiaries of, 262n62
- citizens' groups, nonprofit, 206, 213, 327n66
- Citrix, borrowing by, 234n26
- City of Glasgow Bank, 1878 collapse of, 31
- Clarke, David, 269n24
- clawbacks, 127
- Clearing House, The, 288n14, 310n51
- clearinghouses, 309n48, 334n46
- co cos. *See* contingent convertible bonds
- Cohan, William, 260n40, 261n47, 296n32, 325n52
- Cole, Rebel A., 310n52
- collateral: creditor haircuts to, 301n57; definition of, 163–64; doubts about, in financial crisis of 2007–2009, 164, 301n57; mortgage-related securities as, 157; in repo agreements, 164, 300n54, 301n55; types accepted by central banks, 157, 297n36, 297n39
- collateralized debt obligations (CDOs), 255n2
- Collins Amendment, 315n78
- commercial banks: balance sheets of, 47–49, 48f, 248n4; under Glass-Steagall Act, 47–49; guarantees for, 90, 291n32; interest rates of, restrictions on, 53, 54; rise of money market funds and, 53–54; risk of lending by, 253n41; Volcker Rule on, 3. *See also specific banks*
- commercial paper, asset-backed, 299n45, 300n54, 330n18
- Commerzbank: bailout of, 305n26; questions about solvency of, 304n19
- Commodity Futures Modernization Act of 2000 (U.S.), 325n51
- Commodity Futures Trading Commission (CFTC), 265n4, 325n51, 327n62
- common equity: in Basel III, 315n79; in TARP, 305n26
- Community Reinvestment Act (CRA) (U.S.), 323n38
- compensation, of bankers: clawbacks and, 127; impact of guarantees and subsidies on, 130; incentives in, 116, 122–27, 283n21, 284n24, 284n27; as performance pay, 122–27; proposed regulation of, 127, 285n35; return on equity and, 116, 122–25; risk taking and, 104, 107, 123–25, 284n27
- competition: between banking and other industries, 195–97; excess capacity in banking and, 172, 304n17; impact of guarantees on, 145, 291n37; between savings and loan institutions and money market funds, 53–54. *See also* international competition
- complacency, culture of, 206
- complexity: in chains of transactions, 68, 159–61; of derivatives, 71–72; in mystique of banking, 2, 230n6; of new techniques for risk management, 68–69; of resolution of failed institutions, 76–77, 89, 262n62; of risk-weighting approach, 183. *See also* interconnectedness
- concentration in financial sector: deregulation and, 89, 269n27; and efficiency, 89, 144; incentives for, 89, 144; recent growth in, 89. *See also* mergers; too big to fail conduits, 257n17
- conflicts of interest: of auditors, 128, 286n40; in bank borrowing, 13; in bankruptcy of businesses, 141; in contingent convertible bonds, 188; of corporate shareholders, 126–27; in debt overhang, 130, 162–63, 173; in fragility of banking system, 149; in regulatory capture, 205; in risk-weighting approach, 184; in solvency problems, 41, 43
- Congress, U.S.: on debt ceiling, 322n32; Pecora hearings of 1933 in, 321n27; regulatory capture in, 205, 326n56, 326n62; revolving door in, 326n56; in



- savings and loan crisis of 1980s, 55, 252n35; on stock options, 214. *See also specific laws*
- Congressional Budget Office (CBO), U.S.: on long-term impact of financial crisis of 2007–2009, 233n19; on value of implicit guarantees, 145
- conservation buffers, capital, 189, 307n36, 317n87; and prompt corrective action, 189–90
- consolidation in financial sector. *See concentration*
- Consumer Financial Protection Bureau, U.S., 249n13
- contagion, 61–65; in asset price declines, 63–65, 257n16; in bank defaults, 62–63; in bank failures, 74–75, 78; in banking crises, 65; in bank runs, 52 (*See also runs*); capital regulation's impact on, 95; deleveraging and, 64; in financial crisis of 2007–2009, 60–66; in home foreclosures and prices, 245n10; information contagion, 269n24; interconnectedness and, 61, 66, 161, 219; in LTCM crisis of 1998, 72, 258n20, 261n45; in money market fund runs, 62–63; simplest form of, 61–62; in solvency problems, 63; in subprime mortgage crisis, 60–61
- contingent convertible bonds (co cos), 187–88; as alternative to equity, 187–88, 316n83; definition of, 187; problems with approach, 188, 316n81; types of triggers for, 316n80
- contracts. *See specific types*
- convenient narratives, 209–14; liquidity in, 209–12, 330nn12–13, 330n18; reasons for success of, 213–14; solvency in, 211–12
- Copeland, Adam, 238n46
- core capital, 176, 315n79
- Cornford, Francis, 3, 169, 171, 231n11, 303n10
- corn subsidies, 198
- corporate borrowing: in absence of guarantees, 140–42; alternatives to, 18, 27; in balance sheets, 27, 27f; and bankruptcy, 26, 140–41; costs of, 105, 140–42; creditor standards for, 30, 242n19; default risk in, 105; international differences in, 30, 234n26; limited liability for, 26; non-financial versus bank corporations, 7–8, 101, 140; problems caused by burden of, 34–35, 140–42; risk magnified in, 26–31; in taxes, 112, 139–40, 188, 226–27; variation in rates of, 30, 140
- corporate equity, 27–30; cost of, 105–7; definition of, 241n12; financial markets as source of, 18, 27–29, 241nn14–16, 246n17, 249n14; increase in, and return on equity, 119; internal growth as source of, 29–30; of public corporations, 241n12; retained earnings as source of, 29, 173; risks of, 101; taxation of, 140, 188
- corporate governance: culture of ROE in, 125–28, 284n29; incentives and, 277n13; in public companies, 241n10; regulation of, 127–28, 224, 227; shareholders and, 277n13, 305n24
- corporate shareholders, 26–29, 105–7; ban on cash payouts to, 172–76, 182, 189, 223; compared to business owners, 105; conflicts of interest of, 126–27; dilution of, 28, 175, 306n29; dividends paid to (*See dividends*); governance issues and, 277n13, 305n24; impact of new shares on existing, 28, 175, 182, 241nn14–16, 246n17, 306n29; leverage of, 108; return on equity for (*See return on equity*); rights offering to, 175; of unlimited-liability banks, 30–31. *See also corporate equity*
- corporation(s), 26–31; balance sheets of, 27, 27f, 28, 241n12; bankruptcy of (*See bankruptcy, of businesses*); costs of financial distress to, 246n18; debt-equity funding mix of, 18, 29, 101, 105, 108–10, 112, 140; debt of (*See corporate borrowing*); definition of, 26; distribution of profits of, 105 (*See also dividends*); payouts); equity of (*See corporate equity*); governance of (*See corporate governance*); government bailouts of, 8; income of, defined, 140; insolvency tests for, 41; legal personhood of, 26; limited liability of, 26; public, 241n10, 241n12;

- corporation(s) (*continued*)  
shareholders of (*See* corporate shareholders); shares of (*See* shares); stock repurchase by, 29–30; taxation of, 112, 139–40, 188, 289n26  
“corruptive dependencies,” 325n48, 332n35  
countercyclical buffers, 317n87  
counterparties: regulation of exposure to single, 88, 268n24; risks from, 88, 186  
covenants, debt, 41, 141–42  
covered bonds: definition of, 298n41, 304n17; in Germany, 304nn17–18; as liquid assets, 272n44; versus mortgage-backed securities, 254nn47–48; mortgages in, 254nn47–48, 298n41  
CRA. *See* Community Reinvestment Act  
Cranston, Alan, 252n35  
credibility: of ban on bailouts, 139; of threat of allowing bank failures, 75–76, 139, 264n65; of threat of closing banks for capital violations, 189  
credit cards: interest rates on, 104, 276n11; payments through, 49, 150  
credit crunches: causes of, 5, 301n54; fears of, in delay of regulation, 171–72; in financial crisis of 2007–2009, 5, 211, 301n54  
credit default swaps (CDSs): at AIG, 69, 73–74, 255n1, 259n34, 334n44; definition of, 68, 255n1; and interconnectedness, 68–69; origins of term, 259n34; regulation of, 259n34; risks of, 73–74; in risk-weighting approach, 185  
Crédit Immobilier de France, bailout of, 74  
credit insurance, risks of, 73–74. *See also* AIG; credit default swaps  
credit limits, regulations on, 88, 268n24  
Crédit Lyonnais: cost of bailout of, 318n7; failure of, 55–56, 252n37  
creditors: benefits of guarantees to, 129, 142; collateral used by, 164, 301n57; covenants of, 141; default as problem of, 36, 244n3; deposit insurance and, 62, 163; lending through repo (repurchase) agreements, 164; motivations for short-term lending by, 163–65; response to default, 35–36  
credit ratings: guarantees in, role of, 9, 143, 235nn31–32, 290n28; for mortgage-related securities, 156–57, 185; risks hidden in, 124–25, 156–57, 222, 296n29; in securitization of mortgages, 259n33  
credit risks: AIG and, 74, 161; definition of, 313n64; in financial crisis of 2007–2009, 157, 185; in risk-weighted approach, 183, 313n64, 313n66  
creditworthiness assessments, 50; carelessness in, 56, 277n12; challenges of, 50; economizing on, 249n13; hard versus soft information in, 50, 248n9; for mortgages, 56, 58, 248n9, 277n12  
criminal proceedings, 208, 215, 228, 321n27  
crony capitalism, 331n19  
culture of banking: complacency in, 206; greed in, 208–9, 328n6; lying in, 328n5; return on equity in, 115, 125–28, 284–85nn29–30; unethical behavior in, 209, 328n6, 329n8  
Cumming, Christine, 262n60, 263n62  
currency, and risk of sovereign default, 276n6  
currency boards, 294n15, 333n39  
currency swaps, 260n37  
Curry, Timothy, 252n34, 289n20, 293n3  
  
Das, Satyajit, 230n9, 253n42, 259n34, 260nn37–38, 260n41, 261n43, 261n46, 261n50, 262nn52–53, 284n24, 284n29, 285n37, 286n40, 308n41, 323n38, 328n5, 329n6, 329n8  
Dattel, Danny, 252n36  
Davies, Richard, 270n31, 290n29, 291n34  
Davydenko, Sergei A., 245n13  
debit cards, 49, 150  
debt, treated as equity, 187–88. *See also* borrowing; *specific types of debt*  
debt ceiling, U.S., 322n32  
debt contracts, restrictions (covenants) in, 41, 141–42  
debt-equity funding mix. *See* funding mix  
debt guarantees. *See* guarantees  
debtors’ prison, 36, 244n6  
debt overhang, 33, 42–43, 241n16, 246n18; effect on lending, 81, 232n18, 246n19, 267n19, 279n26; excessive borrowing encouraged by, 43–45, 130, 162–63, 165, 173,

- 175, 241n16. *See also* dilution; distress, financial; risk taking, excessive; solvency problems
- DeConcini, Dennis, 252n35
- default, 35–38; average cost of, 245n13; as borrowers' versus creditors' problem, 36, 244n3; contagion mechanisms in, 61–62; creditor responses to, 35–36; in dark side of borrowing, 35–38; disruptions caused by, 36–38; history of, 36; international differences in treatment of, 36; legal action on, 35–36; liquidity problems in, 38–40; risk of, and interest rates, 8–9, 103–4; size of debt and, 36; solvency problems in, 40–41. *See also* bankruptcy default, by banks, 8–9, 10–13; consequences of allowing, 12; contagion mechanisms in, 62–63; damage caused by, 10–11; in financial crisis of 2007–2009, 63; impact on creditors versus depositors, 62; risk of, and interest rates, 8–9
- default, by businesses: disruptions caused by, 36; risk of, 105
- default, by central banks, absence of risk of, 151, 295n16
- default, by governments. *See* sovereign default
- default, by individuals, on mortgages. *See* mortgage default
- Delaware, bankruptcy in, 247n19
- deleveraging, through asset sales, 64, 175, 257n19, 306n30
- demand deposits: availability of, as benefit to economy, 49, 148; in balance sheets, 48, 248n4; in bank runs, 51–52, 150–53; as form of money, 294n10; in payment system, 49. *See also* deposit(s)
- Demirgüç-Kunt, Asli, 251n24, 315n74
- Demyanyk, Yuliya, 254nn43–44, 297n33
- De Nicolò, Gianni, 249n12
- Denmark, costs of bailouts in, 292n39
- deposit(s): in balance sheets, 48–49; bank loans funded by, 48–49, 51–52; banknotes and, 149–50; in bank runs, 51–52; beneficial to economy, in payment system, 49, 148, 152–53; versus cash, 153, 154, 294n10; cost of, for banks, 111; as form of money, 150, 293n10; as funding sources of banks, 48–49, 51–52, 111, 150, 278n21; insurance on (*See* deposit insurance); in liquidity transformation, 155–56, 250n17; in maturity transformation, 51; as money-like debt, 154–56; in savings and loans institutions, 248n2; in solvency risks from maturity transformation, 51; as unique service of banks, 148; and vulnerability to runs, 150–53
- deposit insurance: creditors protected by, 62, 163; in Europe, 242n25; as explicit guarantee, 129, 136–37, 139; functions of, 62; money market funds as lacking, 67, 93, 309n47; premium charged for, 111, 136–37; runs in absence of, 93, 273n46; in United States (*See* Federal Deposit Insurance Corporation; Federal Savings and Loan Insurance Corporation)
- Depository Institutions Deregulation and Monetary Control Act (DIDMCA) of 1980 (U.S.), 251n28
- deregulation: and concentration in financial sector, 89, 269n27; of interest rates, 54, 251n28; of mergers, 251n28; in savings and loan crisis of 1980s, 55, 252n35; of savings banks, 54–55, 94, 251n28
- derivatives, 69–74; accounting rules for treatment of, 71, 85–86, 260n42, 266n11, 266n13; in bankruptcy, exceptions for, 164, 227, 236n35, 301n55, 336n57; clearing-houses for, 334n46; complexity of, 71–72; credit insurance as, 73–74; definition of, 69; forward contracts as, 69–70; gambling with, 70–71, 73, 123; history of, 70; in LTCM crisis of 1998, 72; netting of, 85–86, 267nn15–17; regulatory capture and, 204; rise of, 70; risks from, 70–73; scandals involving, 70–71, 328n6; transparency in, lack of, 71–72, 261n43; transparency in, proposal to increase, 204, 325n51; types of, 69–70, 260n37. *See also* credit default swaps; mortgage-backed securities
- Deutsche Bank: actual return on equity of, 121–22, 282n15; debt as percentage of assets of, 234n27; investments in Las

- Deutsche Bank (continued)  
Vegas, 123; potential damage caused by default of, 10–11; risk-weighted assets of, 176, 307n37; spread ladder swaps sold by, 260n40; on stricter limits on bank borrowing, 5, 233n18; target return on equity of, 120, 121, 282n12
- Dewatripont, Mathias, 252n30, 252n33, 301n56
- Dexia: debt as percentage of assets in, 236n37; formed by merger of Crédit Communal de Belgique and Crédit Local de France, 269n28, 323n36; government bailout of, 11, 57, 192, 236n38, 253n39, 270n36, 318n3, 318n7, 323n36; government debt held by, 201, 323n36; money market funds invested in, 302n3; solvency problems of, 177, 308n40
- Diamond, Bob: on blame for financial crisis of 2007–2009, 229n3; on contingent convertible bonds, 188, 317n84; on LIBOR manipulation, 208, 209, 328n4; on target return on equity, 120, 122
- Diamond, Douglas W., 249nn11–12, 249n14, 250n19, 301n56
- DIDMCA. *See* Depository Institutions Deregulation and Monetary Control Act
- dilution, 28, 175, 306n29. *See also* debt overhang
- Dimon, Jamie: on allowing bank failures, 77–78; on Basel III, 194; on blame for financial crisis of 2007–2009, 1, 229nn2–3; as board member of New York Fed, 205, 326n58; on cost of resolution, 78, 264n67; on “fortress balance sheet,” 83, 84, 266n6; on implicit guarantees, 235n30; on level playing field, 236n33; in regulatory capture, 205, 326n58; on risk-weighted assets, 312n63
- disciplining effect, of short-term debt of banks, 164, 301n56, 317n83
- distortions in markets, 197–98. *See also* bailouts; debt overhang; externalities; guarantees; risk taking, excessive, in financial distress; subsidies
- distress, financial, 41–43; in banks, importance of preventing, 81, 171–72; in banks, strategies for preventing, 218–24; in businesses, costs of, 140–42; caution or recklessness in response to, 33, 41–43; covenants and, 141; debt overhang in, 42–43; hidden insolvency and, 54–55, 171; inefficiencies in, 246n18; investment decisions during, 41–43, 246n18. *See also* bankruptcy
- dividends: benefits of ban on, 172–76; conflicts of interest in, 126–27; European trends in, 242n17; during financial crisis of 2007–2009, 174–75; homemade, 29, 106, 173, 305n23; methods for distribution of, 27, 29–30; versus retained earnings, 29, 172–76; stinginess with, 242n17; versus stock repurchase, 29–30; in TARP, 305n26
- division of labor, 195
- Dodd-Frank Act of 2010 (U.S.): bailouts forbidden by, 138; Collins Amendment to, 315n78; Consumer Financial Protection Bureau under, 249n13; on costs of bank failures, 76; on credit limits, 268n24; Financial Stability Oversight Council under, 271n37, 327n64, 336n53; implementation of, 3, 232n16; on living wills, 77, 263n65; lobbyists’ influence on, 3, 231n13, 326n60; Office for Financial Research under, 327n64; on regulation of compensation, 285n35; on resolution authority, 76, 77, 138–39, 239n53; on systemically important financial institutions, 236n36, 239n53, 271n37. *See also* Volcker Rule
- domino effects, 61; from credit default swaps, 68–69; in financial crisis of 2007–2009, 61, 66. *See also* contagion
- dot-com bubble of 1990s, 60, 61, 255n3, 256n6
- Douglas, Paul, 271n38
- down payments, home, 18–24, 22t
- downturns. *See* recessions
- Duffie, Darrell, 330n14
- “dumb banks,” 78, 264n67
- Dunbar, Nicholas, 259n34, 260n37, 260n40, 296n28, 300n47, 300n50, 325n54, 329n6, 331nn20–21, 336n54
- Durbin, Dick, 325n48

- Düsseldorf (Germany), mortgage-related securities bought by banks of, 259n29  
Dybvig, Phillip H., 250n19
- earthquakes: as analogues to financial crises, xi, 206–7; preparing for, 78
- EBA. *See* European Banking Authority
- ECB. *See* European Central Bank
- École Nationale d'Administration (ENA), 203, 324n43
- economic downturns. *See* recessions
- Economic Emergency Stabilization Act of 2008 (U.S.), 324n46
- economic growth. *See* growth
- economic nationalism, 193–94, 199
- economic recessions. *See* recessions
- economy, benefits provided to, by banks, 3, 49–51, 148, 231n14
- efficient scale, for banks, 50–51, 89, 144, 270n31, 290n29
- Eichengreen, Barry, 256n8
- Eisenbeis, Robert A., 262n60, 263n62
- Elkind, Peter, 266n8, 284n29, 286n39
- Ellison, Keith, 270n33
- eminent domain, 245n10, 279n25
- “Emperor’s New Clothes, The” (Andersen), 1–2, 230n7
- employees: career concerns of, 127, 228, 319n9; compensation of, 122–27; competition for, 196–97
- employment, in financial crisis of 2007–2009, 233n20, 237n42
- ENA. *See* École Nationale d'Administration
- Enarques*, 203, 324n43
- enforcement of banking regulation: history of gaps in, 225–26, 228; social costs of gaps in, 214–17; strategies for improving, 226–27
- England, history of banking in, 149–50, 151, 250n16, 293nn6–9. *See also* United Kingdom
- Englund, Peter, 253n38, 269n26, 321n30
- Enron: bankruptcy of, 61, 245n13; culture of ROE at, 125, 284n29; governance problems at, 127; off-balance-sheet commitments of, 83, 124
- environmental pollution analogies, 13, 82, 97, 130, 197
- environmental regulation, 82, 199, 321n25
- equity, 100–114; of banks (*See* capital); book value versus market value of, 86–87, 268nn20–21; of corporations (*See* corporate equity); costs of funding with, 7–8, 100–109, 129–47; costs of funding with debts treated as, 187–88; definition of, 6; dilution of, 28; in home, 18–24, 19f, 20f, 240n9; ratio of assets to, history of, 31, 64, 178; regulation of (*See* capital regulation); required return on (*See* return on equity); from retained earnings, 29, 172–76, 182, 189; of sole proprietorships, 24–25, 25f
- equity requirements. *See* capital regulation
- Esty, Benjamin C., 242n22
- ethical behavior, in culture of banking, 209, 328n6, 329n8. *See also* conflicts of interest; incentives
- EU. *See* European Union
- euro, and risk of sovereign default, 201, 276n6
- euro area (Eurozone): money creation in, 201; sovereign debt in, 56–57, 103–4, 170, 184, 201, 239n52, 276nn6–8, 276n10, 281n9
- Europe: banks as source of government funding in, 200–203, 321–22nn30–31; capital requirements in, 170, 303n6; corporate borrowing in, 30; debt of largest banks in, 12; default risk and interest rates in, 103–4, 276nn7–8; deposit insurance in, 242n25; dividend policies in, 242n17; geographic restrictions on banks in, 88, 269n25; home mortgages in, 20–21, 240n4; reserve requirements in, 272n41; solvency problems of banks in, 170, 302n4; universal banks in, 248n3. *See also* euro area; European Union; *specific countries*
- European Banking Authority (EBA), 322n31
- European Central Bank (ECB): in August 2007 crisis, 256n13; and European sovereign debt, 170, 302n4; independence of, 201, 276n6, 298n39; liquidity injections

- European Central Bank (ECB) (*continued*)  
by, 192, 256n13; long-term refinancing operations of, 138, 289n16; money creation by, 201; as supranational institution, 276n6
- European Commission: on capital requirements, 315n79; on explicit guarantees, 235n32, 291n38; on resolution of failed institutions, 263n63; state aid approved by, 237n41
- European crisis of 2010–2011: versus financial crisis of 2007–2009, 229n1; IMF in, 12, 57, 239n52; sovereign debt in (*See euro area*)
- European Free Trade Association Court, 239n51
- European Policy Studies Task Force, 237n41
- European Stabilization Mechanism, 239n52
- European Union (EU): accounting rules of, versus U.S. rules, 84f, 85–86, 266n11, 266n13, 267n15, 267n18; in bank failures, 12, 239n52; capital requirements in, 170, 303n6, 306n31, 315n79; deposit insurance in, 242n25; illegality of price fixing in, 276n5; resolution of failed institutions in, 263n63; ring-fencing proposal in, 90; sovereign debt in, 201
- Eurozone. *See euro area*
- excess capacity, in banking, 172, 202, 293n5, 304nn17–18
- exchange rate risk, and banking crises, 258n23
- executive stock options, 214
- Expertenrat, 236n38, 238n45, 253n39, 271n40, 305n26, 306n26, 304n17, 304n19, 319n8
- explicit guarantees and subsidies, 136–37; and credit ratings, 235n32; deposit insurance as, 129, 136–37, 139; in Europe, 235n32, 291n38; as limited, 136
- exposure to counterparties, regulation of, 88, 268n24
- extended liability, in banking, 31
- externalities: in costs of banking regulation, 82, 97, 265nn4–5; government responses to, 197–99, 320n22; pollution analogies for, 13, 82, 97, 130, 197
- failures, bank: costs of, to financial system, 75, 76, 78, 81; costs of, to society, 78; credibility of threats to allow, 75–76, 139, 264n65; debate over allowing, 74–78; fear of contagion from, 74–75, 78; history of, 65, 148; interconnectedness and, 264n66; need for viable mechanism for, 78; resolution of (*See resolution*); savings and loans institutions, 47, 248n2; sovereign debt in, 240n1; strategies for preventing, 218–24; too big to save, 89. *See also* banking crises; default, by banks; too big to fail; *specific banks*
- fair-value accounting, 124, 258n26
- fake arm’s-length relations, 334n45
- Falcon, Armando, Jr., 283n16
- fallacies in debate on capital regulation, 97–99; confusion about causes of reductions in lending, 97, 99, 169, 222, 274n59; confusion about cost of equity funding, 100–102, 112, 182; confusion about language, 6–7, 98, 275n2; confusion about role of ROE, 100–101, 106–10, 112, 221–22, 278n22; confusion between costs of banks’ borrowing for bank and for society, 8–9, 10, 129–47; confusion of capital and reserves, 6–7, 97–98, 234n23, 274n61, 275n2; “level playing field” rhetoric as, 10
- Fama, Eugene, 308n45, 311n54
- Fannie Mae: cost of bailout of, 145, 209, 292n39, 329n10; debt as percentage of assets of, 8, 234n27; guarantees in credit rating of, 236n32; history of growth of, 144–45, 291n35; implicit guarantees for, 137, 144–45; mortgage securitization by, 253n43; target return on equity of, 283n16
- FASB. *See* Financial Accounting Standards Board
- FCIC. *See* Financial Crisis Inquiry Commission
- FDIC. *See* Federal Deposit Insurance Corporation
- FDICIA. *See* Federal Deposit Insurance Corporation Improvement Act
- Federal Deposit Insurance Corporation (FDIC), 136–39; bank runs since creation

- of, 93; establishment of, 31, 53; expansion of coverage by, 273n48; explicit guarantee of, 136–37, 139; insurance premium charged by, 111, 136–37; maximum amount covered by, 31, 136, 242n25, 251n23; resolution authority of, 76, 77, 138–39, 239n53; risk of investment borne by, 112; self-financing of, 136, 139, 251n22; ways around limits of, 288n10
- Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA) (U.S.), 189–90
- Federal Home Loan Mortgage Corporation. *See* Freddie Mac
- Federal National Mortgage Association. *See* Fannie Mae
- Federal Reserve, U.S.: in AIG bailout, 69, 88; authority over nonmember banks, 251n28; banknotes issued by, 150, 293n9; bank vulnerability to runs as a reason for creation of, 150; on Basel III, implementation of, 307n36; in Bear Stearns bailout, 72, 74, 219; boards of directors of regional banks of, 205; and cash payouts to bank shareholders, 175, 306n27, 312n57; conflicts of interest in, 205, 326n58; on costs of financial crisis of 2007–2009, 233n19; and European crisis, 170, 302n4; government debt monetized by, 322n32; implicit subsidies from, 137–38, 288n14; independence of, 298n39; on LTCM, 72, 258n20; in monetary policy, 298n39; on profit from bank bailouts, 209, 329n10; regulatory capture in, 204, 205, 326n58; response to financial crisis of 2007–2009, 137, 288n14
- Federal Reserve Bank of Dallas, 333n40
- Federal Reserve Bank of New York: board of directors of, 205; liquidity injections by, 256n13; in LTCM crisis of 1998, 72, 74
- Federal Reserve Bank of St. Louis, 233n20
- Federal Savings and Loan Insurance Corporation (FSLIC), 251n22
- fees for bank services, 92, 172, 248n6, 281n8
- Ferguson, Charles H., 325n49, 332n28
- Ferguson, Thomas, 273n45
- Feurer, Alan, 288n14
- Fielding, Eric, 327n64
- Finance-Watch, 327n66
- Financial Accounting Standards Board (FASB), 214
- Financial Consumer Protection Bureau, U.S., 326n62
- financial crises: boom-and-bust developments in, 56, 330n18; costs of, to society, 82; recessions associated with, history of, 233n19; solvency problems in, 211, 331n19. *See also specific countries, crises, and regions*
- Financial Crisis Inquiry Commission (FCIC), 11, 226, 229n1, 234n27, 235n29, 236n32, 237nn40–42, 238n47, 243n2, 243n42, 246n15, 254n46, 255n5, 256nn9–11, 256n13, 257n16, 259n31, 259n34, 260n35, 261nn47–48, 262n56, 267n17, 272n44, 274n55, 297n33, 323n38, 331n18, 331nn20–22, 335n53, 336n55
- financial crisis of 2007–2009, 60–78; analysis after, lack of, ix–x, 199; bailouts in (*See* bailouts); bank borrowing as factor in, 4–5, 11–12, 232n17; bank mergers and acquisitions during, 89; banks at risk of failure in, 11–12; capital in, levels of, 96, 232n17; capital regulation after, 96, 309n50, 321n28; cash payouts to bank shareholders during, 174–75, 306n27; central banks' response to, 63, 137, 256n13; contagion in, 60–66; costs of, 5, 60, 137, 146, 209, 233n19, 237n42, 265n4, 292n39; countries supporting reform after, 199; differences between other crises and, 65–70; downplaying problems in response to, 209; downturn of 2008–2009 in, 5, 11, 233n19; versus European crisis of 2010, 229n1; flawed and misleading arguments made after, ix–x, 3, 4, 213–14, 332n28; as fluke, 3, 230n9; fragility of banking system after, xi–xii, 172, 212; French opposition to reform after, 3, 192–93, 203, 231n12, 319n8; global impact of, reasons for, 65–70; guarantees in, implicit, 137–38; guarantees in, value of, 144, 291nn32–33; interconnectedness of institutions in, 61, 66–69, 185; investigations

- financial crisis of 2007–2009 (*continued*)  
of causes and responsibilities for, 199, 321n27; liquidity narrative of, 209–12; liquidity problems in, 40, 209–12, 238n46, 246n15; lobbying after, 1; long-term impact of, 233n19; money market funds in, 62–63, 66, 138, 161; output during, 5, 146, 233n19, 237n42; regulatory capture in, 204; risk-weighted assets in, 184–85, 186; run-up to, 11–12; securitization in, 59, 60; shadow banking in, 226, 336n55; short-term debt of banks in, 66, 164–65, 238n46; solvency narrative of, 211–12; solvency problems in, 40, 66, 211–12, 246n15, 257n17; time-frame of, 229n1; unanticipated risks in, 73–74, 261n51
- financial distress. *See* distress
- financial institutions. *See* bank(s); insurance companies; investment banks; money market funds; savings and loan (S&L) institutions
- Financial Services Authority (FSA), 314n70, 328n4
- Financial Services Roundtable, false statement on capital, 234n24, 274n61
- Financial Stability Board (FSB), 263n63, 335n53
- Financial Stability Oversight Council (FSOC), 271n37, 327n64, 336n53
- financial utilities, 271n37
- finances and penalties: for late payment by borrowers, 35; in legal settlements, 108, 277n16, 315; for violating capital requirements, 188–89
- Fink, Matthew P., 248n3, 259n28, 332n30
- Finland, banking crisis of 1992 in, 65
- Fitzpatrick, Thomas J., 245n10
- Flannery, Mark, 316n80
- Florida, nonrecourse mortgage clauses in, 240n5
- FMS Wertmanagement (“bad bank” of Hypo Real Estate), 236n38
- Fohlin, Caroline, 248n8
- foreclosure: impact on home prices, 245n10; inefficiencies of, 240n6, 276n12; in nonrecourse mortgages, 21
- “fortress balance sheet,” 83–87, 266n6
- forward contracts, 69–70
- Fourcade, Marion, 324n42
- fragility of banking system: assertions about necessity of, 3, 148–49; bankers’ claims about, 83, 148–49, 212; ban on cash payouts to shareholders and, 172–76, 223; current status of, xi–xii, 4, 172, 212; flawed regulation as cause of, 170, 185; “fortress balance sheet” and, 83–87; interconnectedness and, 66–69; payment systems and, 149–53; potential for reducing, 78; regulation of capital and, 94–99; regulation of investment risks and, 87–92; regulation of liquidity risks and, 92–94; strategies for preventing bank failures and, 218–24
- France: bank bailouts by, 11, 57, 192, 237n38, 253n39, 292n39, 318n3, 318n7, 323n36; bank debt as percentage of GDP of, 238n50; bank failures in, 55–56, 252n37; bank mergers in, 323n36, 324n45; banks as providers of positions for *Enarques*, 203, 324nn44–45; banks as public institutions in, 203; costs of bailouts in, 292n39, 318n7; effectiveness of lobbying in, 3, 231n12; implicit guarantees in, 137; opposition to banking reform in, 3, 192–93, 203, 231n12, 319n8; reception of Basel III in, 194
- Franklin, Benjamin, 81, 218
- Franklin National, 258n23
- fraud: in bankruptcy delays, 246n19; in mortgage loans, 58; prosecution of, 208, 215, 228, 332n33
- Freddie Mac: cost of bailout of, 145, 209, 292n39, 329n10; debt as percentage of assets of, 8, 234n27; guarantees in credit rating of, 236n32; history of growth of, 144–45, 291n35; implicit guarantees for, 137, 144–45; mortgage securitization by, 253n43
- Freixas, Xavier, 306n29
- French, Kenneth, 231n14, 301n56, 316n80, 317n83, 321n26
- Friedman, Milton, 250n18, 251n21, 256n7, 271n38, 294n10, 297n37, 319n9
- Frydman, Roman, 261n50
- FSA. *See* Financial Services Authority



- FSB. *See* Financial Stability Board
- FSLIC. *See* Federal Savings and Loan Insurance Corporation
- FSOC. *See* Financial Stability Oversight Council
- Fukushima, xi, 206–7
- Fuld, Richard, 326n58
- full reserve banking. *See* narrow banking
- funding costs: costs of borrowing to banks, 7–9, 100–101; costs of borrowing to society, 8–9, 10, 33; costs of capital (equity) to banks, 7–8, 100–102, 111–12; impact of bankruptcy prospects on, 141; impact of change in funding mix on, 109–10; impact of guarantees on, 130
- funding mix, debt-equity, 107–13; of banks, 94, 101, 111–12, 146; change in, effects on funding costs, 109–10; of corporations, 18, 29, 101, 105, 108–10, 112, 140; costs of, to society, 146; impact of tax code on, 140, 188, 226–27; and required return on equity, 107–10, 112–13, 116, 120
- funding source(s), of banks: borrowing as, 49; deposits as, 48–49, 51–52, 111, 150, 278n21; equity as, 4–5, 48f, 94, 97–99, 100, 105–12, 152–53; retained earnings as, 172–76, 182, 189
- Fürstenberg, Carl, 277n13
- GAAP. *See* Generally Accepted Accounting Principles
- gambling: in casinos, 123; with derivatives, 70–71, 73, 123; for resurrection, 33, 54–55
- Gandhi, Priyank, 291n32
- Garn–St. Germain Depository Institutions Act of 1982 (U.S.), 251n28
- GDP. *See* gross domestic product
- Geanakoplos, John, 301n57
- Geithner, Timothy F., 236n34, 246n16, 288n14
- gender, of traders, 329n7
- Generally Accepted Accounting Principles (GAAP), 84f, 85–86, 266n11, 267n15, 267n18
- General Motors, Opel subsidiary of, 246n14
- General Motors Acceptance Corporation (GMAC), 235n29, 240n2
- geographic restrictions: on bank activities, 88, 202; on bank branches, 269n25
- Germany: bailouts by, 11, 57, 236n38, 253n39, 292n39, 305n26, 318n7; bank debt as percentage of equity in, 242n20; bank debt as percentage of GDP of, 238n50; bank failures in, 252n36; banking crisis of 1931 in, 256n8, 272n45, 294n14; banking system of, 323n39; Bank Restructuring Act of 2010 in, 289n18; bankruptcy in, 244n8, 245n11, 247n19; costs of bailouts in, 292n39, 318n7; covered bonds in, 304nn17–18; doubts about solvency of banks in, 304n19; excess capacity in banking in, 202, 304nn17–18; explicit guarantees for public banks in, 235n32; fake arm’s-length relations between banks in, 334n45; financial crisis of 2007–2009 in, 91, 271n40, 292n39; great inflation, 294n14; history of banking in, 250n16; implicit guarantees in, 137; interest on mortgages in, 289n21; legal definition of bank in, 308n47; lending to industry in, 248n8; local retail banks in, 91, 271n40, 323n39; mortgage-related securities bought by banks of, 66, 259n29; neutralization of tax penalty for equity funding in, 140; opposition to banking reform in, 193, 203, 231n12, 319n8; prepayment penalties in, 255n48; public banks as source of government funding in, 202; reception of Basel III in, 194; resistance to leverage ratio regulation in, 312n58, 325n47; resolution of failed institutions in, 77, 239n53; rise of corporations in, 242n21; sovereign default risk and interest rates in, 103, 276n7; spread ladder swaps in, 260n40. *See also* Landesbanken
- Gerschenkron, Alexander, 248n8
- Gertler, Mark, 253n38, 289n15, 293n3
- gift cards, 156
- Glass-Steagall Act (U.S.): balance sheets under, 47–49, 48f; bank activity restrictions in, 46, 47; demise of (1999),

- Glass-Steagall Act (U.S.) (*continued*)  
46, 248n3; interconnectedness under, 334n45; interest rates on deposits under, 53, 248n6, 251n26
- Glenn, John, 252n35
- global crisis, financial crisis of 2007–2009 as, 65–70
- global economy, impact of subprime mortgage crisis on, 60
- Global Financial Stability Report* (IMF), 238n46
- globalization, and interconnectedness of institutions, 66
- GMAC. *See* General Motors Acceptance Corporation
- gold, and banknotes, 250n16, 293nn7–8, 294n15
- Goldberg, Michael D., 261n50
- Goldman Sachs: change in status to bank holding company, 93, 138, 286n1; mistakes admitted by, 230n8; SEC charges against, 296n32; on single-counterparty credit limit proposal, 269n24
- goldsmiths, in history of banking, 250n16, 293nn7–8
- Goldstein, Itay, 330n17
- Goodfriend, Marvin, 259n28, 299n46
- Goodhart, Charles A. E., 253n40, 273n53, 293n4, 293n9, 294nn13–14, 297n35, 302n2, 312n60, 313n66, 322n32
- Gorton, Gary, 153–54, 231n14, 238n46, 243n2, 246n15, 250n17, 251n20, 254n43, 273n49, 293n3, 293n5, 293n8, 294n13, 295nn22–23, 296n25, 297n33, 298–99nn43–45, 300–301n54, 308n47, 330n12, 330nn14–15, 330n18
- governance, corporate. *See* corporate governance
- government bailouts. *See* bailouts
- government budget, central banks and, 157
- government debt. *See* sovereign debt
- government funding: banks as source of, 193–94, 200–203, 213; central banks as source of, 157–58, 200
- government guarantees. *See* guarantees
- government subsidies. *See* subsidies
- Great Depression: bank failures in, 91; bank runs in, 52–53, 93, 251n20, 273n45, 330n16; end of convertibility of banknotes in, 294n15; extended-liability banks in, 31; versus financial crisis of 2007–2009, 5, 11; reductions in bank lending to businesses in, 51; savings and loans institutions in, 47, 248n2
- Greece: banks as source of government funding in, 201, 322n31; costs of bailouts in, 292n39; and French banks, 192, 193; sovereign default by, 103–4, 170, 177, 201, 244n3
- greed, in culture of banking, 208–9, 328n6
- Greenspan, Alan, 230n7; in confusion of capital and reserves, 234n23, 274n61; on financial crisis of 2007–2009 as fluke, 230n9; and transparency in derivatives market, 204
- Grilli, Vittorio, 298n39
- Gros, Daniel, 263n63
- gross domestic product (GDP): bank debt as percentage of, 238n50; impact of capital requirements on, 310n51; impact of financial crisis of 2007–2009 on, 237n42
- gross domestic product (GDP), U.S.: bank debt as percentage of, 238n50; bank size as percentage of, 238n49; impact of financial crisis of 2007–2009 on, 233n19, 237n42
- Grossman, Richard S., 242nn23–24, 258n23
- growth, economic: impact of banking regulation on, 5, 233n19; impact of capital regulation on, 97, 274n59; impact of financial crisis of 2007–2009 on, 5, 233n19; and stability, false choice between, 5
- Gruenberg, Martin, 262n57
- guarantees, 129–47; in bailouts, 11, 137, 236n38, 237n41; bank behavior affected by, 130, 139, 142–45; bank borrowing costs affected by, 9, 129, 130, 143, 235n32; in bank credit ratings, 9, 143, 235nn31–32, 290n28; blanket, 139, 142–43, 146, 287n6, 291n30; corporate borrowing in absence of, 140–42; costs of, to society, 145–47; and credit ratings, 9, 143, 235nn31–32; explicit (*See* explicit guarantees); in

- financial crisis of 2007–2009, value of, 144–45, 291nn32–33; government reasons for offering, 90; as harmful, 93–94; in history of bank equity levels, 178; implicit (*See* implicit guarantees); and international competition, 197–99; in liquidity narrative, 210–11; and liquidity problems, 93–94; mechanisms of, 130–36; for money market funds, 161; on mortgages, 130–36, 132t, 134t, 142–43, 145–46, 287nn6–8; perverse incentives in, 130, 139, 142–45, 198; for retail versus investment banks, 90; and solvency problems, 93–94, 152; and too many to fail, 142; as type of subsidy, 129; types of, 136–39. *See also* deposit insurance; subsidies; too big to fail
- Gummerlock, Robert, 261n49
- Gurley, John G., 250n17
- Haberer, Jean-Yves, 324n44
- haircuts, to collateral, 301n57
- Haldane, Andrew G., 233n19, 237n42, 242nn20–22, 243n27, 258n26, 267n18, 268n20, 283n19, 285n30, 291nn33–34, 292n4, 308n44, 311n53, 313n66, 314n68, 317n89, 335n49
- Hamburg Bank, 250n16
- Hanson, Samuel, 232n18, 306n52, 310n52
- hard information, in creditworthiness assessments, 50
- Harding, John P., 245n10
- harm. *See* social costs
- Harrison, Ian, 278n22
- Hauri, Kurt, 319n15
- Hayes, Christopher, 230n7, 284n27, 325n49, 328n5
- Healy, Paul M., 266n8
- hedge funds: capital requirements for, 179; in financial crisis of 2007–2009, 257n17, 309n49; scandals of 2012 involving, 328n6; solvency problems of, 257n17
- Heitz, Amanda, 290n29
- Hendershott, Patrick C., 252n33
- herding behavior, 123
- Herring, Richard, 262n62, 316n80
- Herstatt Bank, crash of, 252n36, 258n23
- Hesse, Heiko, 238n46
- high-fructose corn syrup, 198
- High Noon* (movie), 225
- Hillel, Rabbi, 303n10
- Hitler, Adolf, 256n8
- Hoenig, Thomas M., 270n33, 311n53, 313n66, 314n68, 332n40
- holidays, bank: German (1931), 256n8; U.S. (1933), 53, 62
- Holtfrerich, Carl-Ludwig, 242n20, 243n27, 292n41, 308n44
- home buying. *See* mortgage(s)
- home country principle, 262n59, 302n2
- home equity, 18–24, 19f, 20f, 240n9
- homemade dividends, 29, 106, 173, 305n23
- home prices: impact of foreclosure on, 245n10; zero-equity loans and, 287n8
- home-team bias, 195, 205, 324n44, 326n59
- Horowitz, Maurice, 263n62
- Hoshi, Takeo M., 249n14, 255n4, 264n70, 304n12
- housing policy, U.S.: banks as source of funding and, 200; in subprime mortgage crisis, 323n38
- Hu, Henry T. C., 269n30, 290n28, 333n40
- Hughes, Joseph P., 290n29
- hybrid securities, 137, 187, 305n26, 315nn77–78, 319n8
- Hyman, Louis, 240n2
- Hypo Real Estate: in cutthroat competition, 304n17; effective insolvency of, 304n19; government bailout of, 11, 57, 236n38, 253n39, 270n36, 318n7; high indebtedness of, 11, 236n37
- IASB. *See* International Accounting Standards Board
- ICB. *See* Independent Commission on Banking
- Iceland: costs of crisis in, 197, 320n19; failure of banks of, 12, 63, 89, 143, 238n45, 238n51; investigation of financial crisis in, 321n27; solvency problems in, 305n19; success of banking in, 196, 197
- IFRS. *See* International Financial Reporting Standard

- IIF. *See* Institute of International Finance
- illiquidity. *See* liquidity problems
- Imai, Masami, 242n22
- IMF. *See* International Monetary Fund
- implicit guarantees and subsidies, 136–39; bankers' claims about, 235n30; from central banks, in bank borrowing, 137–38; and concentration in banking, 89, 144, 290nn28–29; and credit ratings, 235n32, 291n33; in financial crisis of 2007–2009, 137–38; funding costs affected by, 137–38, 140–42, 290n29; perverse incentives from, 130, 139, 142–45, 198; as unlimited, 129, 137
- incentives and moral hazard: in bank borrowing, 129, 130, 142–45, 220; for becoming too big to fail, 130, 142–45, 218; in bonuses, 162; in capital regulation, 95; career concerns and, 127, 228, 319n9; in compensation, 116, 122–27, 283n21, 284n24, 284n27; and corporate governance, 277n13; in creditworthiness assessments, 56, 58; in debt overhang, 130, 162–63; in evaluation of insolvency, 41; gambling for resurrection, 33, 54–55; induced by guarantees, 130, 139, 142–45, 198; for lending versus trading assets, 267n19; in mergers, 89; and need for banking regulation, 81; and securitization, 58; in tax code, 139–40
- income: corporate, definition of, 140; per capita, impact of financial crisis of 2007–2009 on, 237n42
- Independent Commission on Banking (ICB), 90, 218n8, 321n28, 325n53
- indexed debt, 276n6
- India, banking crisis in, 258n22
- Industriekreditbank, 258n27, 259n29, 266n9, 299n45
- inflation: of 1970s, 53; money creation in, 157–58, 276n6, 294n14, 295n16, 296n26, 297n37, 322n34; in Germany, 294n14
- information contagion, 269n24
- innovation, role of risk taking in, 216
- innovations, financial: of 1980s and 1990s, 57–59; and interconnectedness, 66–69; risk management through, 68–74; and safety of banking system, 70–74. *See also specific types*
- insolvency. *See* solvency problems
- Insolvency Act of 1986 (UK), 245
- Institute of International Finance (IIF), 97, 232n18, 233n22, 234n25, 310n51
- insurance. *See* credit insurance; deposit insurance
- insurance companies: capital requirements for, 179; contingent convertible bonds and, 316n81
- interbank lending. *See* LIBOR
- interconnectedness of financial institutions: after breakup of largest banks, 219, 334n45; and capital requirements, 181; contagion and, 61, 66, 161, 219; in impact of financial crisis of 2007–2009, 61, 65–69, 185; in money market funds, 66–67; in new risk management techniques, 68–69; and resolution, challenges of, 264n66
- interest-bearing assets, versus cash, 153–55
- interest payments: by corporations, 140, 289n23; on mortgages, 18–19, 21, 117–19, 140, 240n8, 289nn21–22
- interest rates: on bank borrowing, 8–9, 129, 137–38, 288n14; on business loans, 104; capital regulation's impact on, 97, 274n59; on cash reserve, 92, 271n41; on central bank deposits, 200, 297n37; on checking accounts (demand deposits), 49, 248n6, 281n8; of commercial banks, 53, 54; on consumer loans, 104; in costs of borrowing, 102–4; default risk and, 8–9, 103–4; deregulation of, 54, 251n28; under Glass-Steagall Act, 53, 248n6, 251n26; guarantees' impact on, 131; and implicit subsidies, 137–38, 288n14; LIBOR (*See* LIBOR); on money market funds, 53–54, 67; on mortgages, 34, 104, 105, 117, 160, 276n12, 280n6, 298n44; on mortgages, adjustable-rate, 34, 160, 243n2, 298n44; Regulation Q on, 53, 251n26; “required,” 277n14; risk of changes in, 34, 47, 53–55, 57, 70, 72, 88, 96, 159–60, 258n23, 289n10, 299n44, 322n32; of savings and loan institutions, 53, 54; short-term, history of,

- 138, 251n25, 281n10; swaps, 260n37; for unsecured interbank lending in crisis, 256n13
- International Accounting Standards Board (IASB), 266n13
- international competition: Basel rules and, 194; environmental regulations and, 199, 321n25; home-team bias of regulators in, 195, 205; “level playing field” rhetoric in, 10, 194–99; in national politics, 193, 194–99, 318n8; subsidies and guarantees in, 197–99
- International Financial Reporting Standard (IFRS), 84f, 85–86, 266n11, 266n13, 267n15, 267n18
- international law, on resolution of failed institutions, 76–77, 139, 262n59
- International Monetary Fund (IMF), 12, 57, 60, 192, 233n19, 237n42, 238n46, 239nn51–52, 243n2, 255nn2–3, 255n5, 257nn18–19, 258n26, 313n66
- International Swaps and Derivatives Association (ISDA), 266n11, 267nn15–16, 267n18
- international trade: Ricardian theory of, 320n18; strategic theory of, 320n23
- Interstate Commerce Commission, U.S., 319n9
- investment(s): of banks, controlling risks from, 87–92; distortions due to financial distress, 41–43, 246n18; of individuals and businesses, borrowing for, 17–18
- investment banks: approaches to regulation of, 90; versus bank holding companies, 93, 138, 286n1; campaign contributions by, 324n46; capital regulation of, 180, 204, 325n52; debt as percentage of assets of, 8; Glass-Steagall Act restrictions on, 46; guarantees for, 90; money market fund runs and, 256n12; mortgage securitization by, 58; need for tighter regulation of, 218–19, 334n43; regulatory capture and, 204, 325n52; versus retail banks, risks of, 90–91; ring fencing and, 90; services offered by, 266n14; transformation from partnerships to corporations, 282n14. *See also specific banks*
- Ireland: cost of bailouts in, 197; EU support of banks in, 12, 239n52; failure of banks of, 12, 89, 143, 238n45, 238n51; mortgage debt in, 240n4; real estate bubble in, 56, 330n18; solvency problems in, 305n19, 331n18
- ISDA. *See* International Swaps and Derivatives Association
- Israel, indexed debt in, 276n6
- Italy, banks as source of government funding in, 321n30, 322n32
- It’s a Wonderful Life* (movie), 46–47, 49, 52, 67, 159, 160, 211, 247n1
- Ivry, Bob, 288n14
- Jackson, Thomas H., 236n35, 300n54, 301n55, 317n88
- Jaffe, Adam B., 321n25
- Jagtiani, Julapa A., 291n31
- Japan: Kobe earthquake of 1995 in, 55; lobbying by banks of, 231n10; monopoly power of banks in, 249n12, 275n4; nuclear disaster of 2011 in, xi, 206–7; opposition to banking reform in, 193, 231n12
- Japanese crisis of 1990s: insolvency of many banks in, 333n41; international impact of, 61, 65, 258n25; Principle of Unripe Time in, 171; resolution issues in, 264n70; versus subprime mortgage crisis in United States, 60, 61
- Jenkins, Antony, 283n17
- Jenkins, Patrick, 230n6, 280n1, 335n52
- Jenkins, Robert, 311n53
- Jensen, Michael C., 242n17, 305n22
- Jimmy Stewart Is Dead* (Kotlikoff), 247n1
- Jøeveer, Karin, 290n29
- Johnson, Simon, 248n3, 269nn27–28, 270n33, 311n54, 319n9, 325nn49–51, 325n54, 326n58, 332n30, 333n40
- joint-stock companies, 240n10
- Jordà, Oscar, 233nn18–19
- JPMorgan Chase: actual balance sheet of, 84–87, 84f, 266n11, 266n14, 267nn15–16, 317n88; in Bear Stearns bailout, 72, 74, 219, 326n58; on capital requirements, 265n5; and costs of resolution, 78; “fortress balance sheet” of, 83–87, 266n6; large trading losses of, 78, 260n39, 328n6; lending as fraction of activities of, 86,

- JPMorgan Chase (*continued*)  
267n18; market value versus book value of equity of, 86–87, 113–14; mistakes admitted by, 232n17; off-balance-sheet commitments of, 83, 84, 266n7; payouts to shareholders by, 182, 312n57; potential damage caused by default of, 10–11; regulatory capture by, 205, 326n58; risk management at, 285n38; scandals involving, 328n6; stock price of, 86, 87; versus UBS, 267n18; on “unintended consequences,” 231n10; value of debt of, 12, 85; vulnerability of, 83, 86, 87. *See also* Dimon, Jamie; Zubrow, Barry
- Junge, Georg, 232n18, 243n27, 310n52
- junior debt, 58, 240n5, 247n22, 257n19, 300n52, 306n30
- junk bonds, 54–55, 273n50
- Kahn, Charles M., 301n56
- Kane, Edward, 252nn30–31, 252n35, 263n64, 269n26, 288n10, 319n9, 325n50, 325n54, 336n60
- Kareken, John H., 252n35, 291n38
- Kaserer, Christoph, 259n29, 273n51, 292n39, 318n7, 324n40
- Kashyap, Anil K., 253n4, 264n70, 278n22, 279n23, 304n12, 335n52
- Kaufman, Ted, 270n33
- Kay, John, 271n38
- Keating Five, 252n35
- Keeley, Michael C., 149n11, 291n37
- Keenan, Douglas, 328n4
- Kelleher, Dennis, 265n4, 327n66
- Kelly, Brian, 291n32, 291n34
- Keys, Benjamin J., 254n43
- Kim, Daesik, 313n67
- Kindleberger, Charles P., 250n16
- King, Mervyn, 278n22, 313n68, 331n19
- Klein, Benjamin, 248n6, 281n8
- Klingebiel, Daniela, 304n16
- Knapp, Georg Friedrich, 294n10, 294n14
- Kobe earthquake (Japan, 1995), 55
- Koehn, Michael, 313n67
- Konkurs*, 244n8
- Körner, Tobias, 292n38
- Korteweg, Arthur, 246n18
- Kotlikoff, Laurence J., 247n1, 308n45
- Krahnen, Jan, 323n39
- Krishnamurthy, Arvind, 299n45, 300–301n54, 330n18
- Kugler, Peter, 232n18, 243n27, 310n52
- Kuntz, Phil, 288n14
- Kwak, James, 248n3, 269nn27–28, 270n33, 319n9, 325nn49–51, 325n54, 326n58, 332n30, 333n40
- labor, division of, 195
- Laeven, Luc, 288n12, 292n39, 304n16, 307n33
- Lagarde, Christine, 192–93
- Landesbanken (German public banks): and cutthroat competition in covered bond market, 271n40, 304nn18–19; in financial crisis of 2007–2009, 91, 202, 324n40; and German opposition to banking reform, 203; guarantees and borrowing costs of, 94, 235n32, 291n38; investment losses of, 94, 273n51; lack of profitability of, 202, 324n40; ownership of, 323n39; solvency problems of, 94, 273n51, 304n19
- Landsman, Wayne R., 258n26
- La Porta, Rafael, 242n17
- large complex financial institutions (LCFIs), 263n62
- Las Vegas (Nevada), 123
- Latin American debt crisis of 1980s, 56–57
- Laux, Christian, 258n26
- law(s). *See* international law; legislation; *specific laws*
- law firms, in securitization of mortgages, 259n33
- LBOs. *See* leveraged buyouts
- LCFIs. *See* large complex financial institutions
- Lebanon, reserve requirements in, 272n41
- Lec, Stanislaw Jerzy, 192
- Leeson, Nick, 55, 70–71
- legal action, in response to default, 35–36
- legal settlements, 108, 277n16, 315
- legislation: on bailouts, 138, 139, 289n18; on bank resolution, 239n53, 263n63, 263n65; on bankruptcy, 37, 245n11; Basel rules implemented through national, 302n2. *See also specific laws*
- Lehman Brothers: culture of ROE at, 284n29; incentives in compensation at,

- 284n27; as non-deposit-taking investment bank, 90; as systemically important financial institution, 75
- Lehman Brothers bankruptcy: appearance of strength before, 87, 268n23, 317n89; contagion mechanisms in, 62–63; cost of, 245n13; debt as percentage of assets in, 11, 236n37; doubts about collateral in, 164, 301n57; expectations defied by, 238n48; filing for, 11; flawed regulation in, 334n43; government decision to allow, 74–75, 90; international impacts of, 11, 12, 93; international law in, 76–77; money market funds and, 62–63, 66, 256n9, 309n47; netting of derivatives in, 86, 267n17; regulatory capture before, 204, 326n58; short-term debt in, 66; solvency problems in, 246n16, 299n45; subsidiaries in, 76–77, 262n62; third parties damaged by, 218, 333n42
- lemons problem, 155, 156, 296n30, 296n32, 300n54
- lenders. *See* creditors
- lending. *See* bank lending; bank loans; borrowing
- Lessig, Lawrence, 319n9, 320n22, 324n46, 325n49, 326n56, 326n60, 331n25, 332n35
- Leuz, Christian, 258n26
- “level playing field” rhetoric, 10, 194–99
- leverage: of corporations, 27; created by borrowing, 17, 19, 107–8; effects on shareholders, 108; excessive, in financial crisis of 2007–2009, 232n17; in mortgages, 19, 21–22, 107–8, 118–19; regulation of (*See* leverage ratio); and required return on equity, 108; risk-weighting approach and, 184–85
- leveraged buyouts (LBOs), 234n26
- leverage ratio: in Basel III, 177–78, 183, 235n28, 308n42; definition of, 308n42; resistance to, 183, 312n58, 325n47
- Levin, Carl, 231n13, 259n52
- Levitin, Adam J., 309n50, 335n46
- Levitt, Arthur, 204
- Lewis, Michael, 60, 240n4, 253n38, 253n42, 259n29, 259n34, 261n51, 262n53, 282n14, 285n37, 290n27, 297n33, 300n49, 320n17, 329n6, 329n8, 331n20
- liabilities, in balance sheets, 48, 48f, 248n4
- liability: for covered bonds versus mortgage-backed securities, 254n48; extended, 31; limited, 25–26, 30–31, 240n10; unlimited, 30–31, 153
- LIBOR (London interbank offered rate): definition of, 208, 256n13, 328n2; in financial crisis of 2007–2009, 256n13; scandal involving manipulation of, 208, 209, 215, 276n5, 328n2, 328n4
- light-touch regulation, in UK, 204
- Liikanen Commission, 90, 270nn34–35
- limited-liability businesses, 25–26; banks as, 30–31; versus extended liability, 31; forms of, 240n10; rise of, 30; versus unlimited liability, 30–31. *See also* corporation(s)
- Lincoln Savings and Loan Association, 252n35
- liquid assets, definition of, 295n24; in liquidity regulations, 92–93, 272nn44–45
- liquidation(s): versus bankruptcy, 37; as normal in market economies, 38
- liquidity: central banks’ role in, 39–40, 63, 179, 256n13; creation of, by banks, 154, 295n23; definition of, 250n17; “need” for, 153–58; in plumbing metaphor, 210; transformation of, by banks, 155–56, 158–59, 250n17, 296n31
- liquidity coverage ratio, 92–93
- liquidity problems (illiquidity), 38–40; approaches to controlling, 92–94; in bank runs, 52, 93; capital regulation’s impact on, 95; central banks’ support in, 39–40, 63, 179, 256n13; contagion mechanisms in, 63; definition of, 38; in financial crisis of 2007–2009, 40, 209–12, 238n46, 246n15; guarantees and, 93–94; in maturity transformation, 159; money creation and, 158; in money market fund runs, 63; of mortgage-related securities, 156–57, 297n34; narrative of, 209–12, 330nn12–13, 330n18; pure (temporary), 32, 38–39; reserve requirements and, 92, 272n41, 272n43; safety nets for, 39–40, 93, 210–11; versus solvency problems, dangers of, 93, 152

- liquidity transformation, 155–56, 158–59, 250n17, 296n31
- living wills, for financial institutions, 77, 263n65
- loans. *See* bank lending; bank loans; borrowing
- lobbying, bank, 192–207; on Basel III, 96, 97, 187, 194, 315n79; campaign contributions in, 203, 205, 324n46; on capital regulation, 96, 97, 99, 310n51; on Dodd-Frank Act, 3, 231n13, 326n60; effectiveness of, 3, 193–94, 213–14, 231n12, 324n46; fallacies in (*See* fallacies); after financial crisis of 2007–2009, 1; and home-team bias, 195, 205, 324n44, 326n59; “level playing field” rhetoric in, 194–99; liquidity narrative in, 330n12; reasons for success of, 2, 213–14; regulatory capture by, 194, 203–7; and revolving doors, 203, 204–5, 324n44, 325n56; in savings and loan crisis of 1980s, 55, 252n35; on single-counterparty credit limit proposal, 268n24; as source of funds for politicians, 193–94; spending on, 229n4, 324n46, 326n60; on Volcker Rule, 3, 231n10, 231n13, 270n34
- London Economics, on covered-bond markets, 255n48
- London interbank offered rate. *See* LIBOR
- Long Term Capital Management (LTCM), as systemically important financial institution, 72, 90, 219
- long-term refinancing operations (LTRO), 138, 289n16
- looting, of savings banks, 252n33
- Lopez, Robert S., 250n16
- LoPucki, Lynn, 245n12, 247n19
- Lowenstein, Roger, 261n46, 262n53
- low-income families, mortgages for, 323n38. *See also* subprime mortgage(s)
- Lown, Cara S., 249n15, 253n38
- Lowrey, Annie, 327n66
- LTCM. *See* Long Term Capital Management
- LTCM crisis of 1998, 72; bailout in, 72, 74, 90, 219; contagion in, 72, 258n20, 261n45; unanticipated risks in, 73
- LTRO. *See* long-term refinancing operations
- Lustig, Hanno, 291n32, 291n34
- Luxembourg, bank bailouts by, 237n38
- lying, culture of, 328n5. *See also* culture of banking
- Macey, Jonathan R., 242n23
- Mack, John, 232n17
- Madoff, Bernard, 332n33
- Majluf, Nicholas S., 305n21, 306n29
- Mallaby, Sebastian, 309n49
- Malysheva, Nadezhda, 288n10, 308n44
- M&M. *See* Modigliani–Miller
- manus iniectio*, 244n4
- Mariani, Pierre, 203
- market capitalization, 268n20. *See also* market value(s) of equity, versus book value(s)
- market economies: bankruptcy as normal in, 38; distortions in, 197–98
- market risks, 273n53
- market value(s) of equity, versus book value(s), 86–87, 112–14, 268nn20–21, 279nn24–25
- mark-to-market accounting, 124, 258n26
- mark-to-model accounting, 268n21. *See also* mark-to-market accounting
- Mary Poppins* (movie), 211, 250n19
- Mason, Joseph R., 251n20
- Masters, Brooke, 230n6, 280n1
- maturity transformation (mismatch), 158–60; as core function of banks, 51, 158; definition of, 51, 158; versus liquidity transformation, 158–59; mortgage securitization as response to problems from, 159–61, 298n42, 298n44; in nonbank industries, 166; rat race, 163–65; risks of, 55, 159
- Mayer, Colin, 248n8, 305n21
- Mayo, Mike, 263n64, 268n21, 283n17, 284n27, 285n32, 290n30, 304n13, 305n20, 332n28
- MBS. *See* mortgage-backed securities
- McCain, John, 252n35
- McDonald, Lawrence G., 284n29
- McDonald, Robert L., 316n81
- McFadden Act of 1927 (U.S.), 269n25, 269n27, 334n45
- McKenna, Francine, 286n40
- McLean, Bethany, 234n27, 259n34, 266n8, 282n14, 286n39, 297n33, 300n47, 300n50, 314n71, 331nn20–21, 332n28, 336n54



- media coverage: of bankers and banking experts, 1; confusion about capital in, 6, 98, 234n23; of return on equity, 126; of speculation versus systemic mistakes, 55–56
- Mehran, Hamid, 278n22
- Mehrling, Perry, 246n15, 250n18, 273n49, 293n5, 294n11, 294n13, 295n22, 297nn35–36, 330nn14–15
- Meltzer, Allan, 238n48, 243n26, 265n2, 311n54
- Melzer, Brian T., 246n18
- mergers, bank: BNP Paribas, 269n28, 324n45; deregulation of, 251n28; Dexia, 269n28, 323n36; growth in number of, 89, 269n28; incentives for, 89, 144; UBS, 127, 269n28, 285n36. *See also* concentration
- Merkley, Jeff, 231n13, 259n32
- Merrill Lynch, money market fund of, 251n27
- Merton, Robert K., on self-fulfilling prophecy, 250n19
- Mester, Loretta J., 290n29
- Metrick, Andrew, 246n15
- Mexico, sovereign default by, 322n33
- MF Global, failure of, 301n55
- Mian, Atif, 324n46
- “Microcosmographia Academia” (Cornford), 231n11
- Middle Ages: default in, 36; history of banking in, 249n16
- Mihm, Stephen, 314n68
- Miles, David, 278n20, 278n22, 279n23, 310n52, 325n53
- Miller, Brad, 270n33
- Miller, Geoffrey P., 242n23
- Miller, Harvey A., 263n62
- Miller, Merton, 100, 102, 109, 112, 113, 179, 275n1, 278n22, 308n46. *See also* Modigliani–Miller
- minority participations, 319n8
- Mishkin, Frederic, 115, 250n17, 280n3. *See also* banking textbooks
- models: in capital regulation, 184, 186–87, 191; in mark-to-model accounting, 268n21; risk (*See* risk models); in stress testing, 186–87
- Modigliani, Franco, 109
- Modigliani–Miller (M&M), 109, 278n18; applicability to banks, 110–11; for dividends and payouts, 305n22
- monetary policy, U.S., 298n39
- monetization, 322n32
- money: banknotes as, history of, 149–50, 250n18, 293nn6–9; cartalist view of, 294n10, 294n14; of central banks, 151, 295n16; deposits treated as, 150, 293n10; liquidity provision and, 210; political impact of, 203, 325n48; purchasing power of, 157, 296n26, 297n37; quantity of, definitions of, 294n10
- money creation (printing): electronic versus physical, 322n32; in euro area, 201; and inflation, 157–58, 276n6, 294n14, 295n16, 296n26, 297n37, 322n34; limitations on, 157–58; as “liquidity support,” 158; to pay sovereign debt, 102, 276n6, 322n32
- money-like debt, 154–56, 160
- money machine, 119, 281nn9–10; arbitrage opportunity as, 103, 276n9; bank borrowing from central banks as, 138; blanket guarantees as, 287n6, 291n30; zero-equity mortgages as, 136
- money market, definition of, 48
- money market funds (mutual funds): contagion in, 62–63; versus deposit institutions, 67, 309n47; deposit insurance for, lack of, 67, 93, 309n47; efforts to reform, 232n16, 259n30; European sovereign debt and, 170, 302n3; in financial crisis of 2007–2009, 62–63, 66, 138, 161; and French banks, 192; as funding source for banks, 48, 62–63, 67; guarantees for, 161; interconnectedness and, 66–67; interest rates of, 53–54, 67; legal definition of banks and, 309n47; Lehman bankruptcy and, 62–63, 66, 256n9, 309n47; liquidity narrative and, 330n12; mechanisms of, 67; as off-balance-sheet entities, 84; origins of, 53–54, 67, 251n27, 299n46, 335n53; reductions in lending by, 62–63; regulation of, 54, 67, 161, 251n27, 300n48, 309n47, 335n53; rise of, 66–67, 299n46; risks of, 299n46; runs

- money market funds (mutual funds)  
(*continued*)  
on, 62–63, 67, 93, 161; in securitization of mortgages, 159–60; as shadow banking institutions, 225, 335n53
- money view of banking, 250n18
- Monopoly (game), 35
- monopoly power: of banks, 249n12, 275n4; in telecommunications, 327n63
- Moody's Global Credit Division, 235n31
- Moody's Investors Services, 235n31
- moral hazard. *See* incentives and moral hazard
- Morgan Stanley: change in status to bank holding company, 93, 138, 286n1; and knowledge about LIBOR scandal, 328n4; large trading losses of, 260n39; mistakes admitted by, 232n17
- Morgenson, Gretchen, 234n27, 259n34, 300n47, 300n50, 325n49, 329n8, 331nn20–21, 332n28, 336n54
- Morris, Charles S., 270n33, 333n40
- Morris, Stephen, 330n17
- mortgage(s), 18–24; adjustable-rate, 34, 160, 243n2, 298n44; in covered bonds, 254nn47–48, 298n41; creditworthiness assessments for, 56, 58, 248n9, 277n12; default on (*See* mortgage default); down payments and, 18–24, 22t; in financial crisis of 2007–2009, 59, 60–61, 65–66; financial distress and, 42–43, 246n18; guarantees on, impact of, 130–36, 132t, 134t, 142–43, 145–46, 287nn6–8; in home owner balance sheets, 18, 19f, 20, 20f, 23; interest payments on, 18–19, 21, 117–19, 140, 240n8, 289nn21–22; interest rates on, 34, 104, 105, 117, 160, 276n12, 280n6; leverage effect in, 19, 21–22, 107–8, 118–19; in liquidity transformation, 158–59; in maturity transformation, 158–59; non-recourse clauses in, 21, 23, 240n5; prime, 254n43; problems caused by burden of, 33–34; return on equity in, 117–19, 118t, 135, 280n7, 287n7; risks of, 18–24, 102–3; second, 34, 44, 240n5, 247nn21–22, 286n5; securitization of (*See* securitization); solvency problems of S&Ls from, 54, 159, 252n32; subprime (*See* subprime mortgage(s)); tax subsidies for, 140, 289n22; underwater, 20–21, 42, 95, 133, 246n18; zero-equity, 135–36, 287–88nn8–9
- mortgage-backed securities (MBS):  
breakdown of markets for, 58–59; in collateralized debt obligations, 255n2; versus covered bonds, 254nn47–48; definition of, 58; interconnectedness in, 68; as liquid assets, 272n44; in mortgage-related securities, 255n2; securitization of, 159, 255n2
- mortgage default, 34, 243nn1–2; adjustable rates and, 34, 160, 243n2, 298n44; in financial crisis of 2007–2009, 211, 243n2; risk of, in costs of borrowing, 103, 105; securitization and, 58, 68, 254n43; in UK, 34, 243n1; in United States, 34. *See also* foreclosure
- mortgage-related securities: as collateral, 157; contagion in markets for, 63–64, 257n17; credit ratings for, 156–57, 185; definition of, 255n2; German banks' purchase of, 66, 259n29; in global impact of financial crisis of 2007–2009, 65–66; held by off-balance-sheet entities, 83–84; liquidity problems with, 156–57, 297n34; losses from, in financial crisis of 2007–2009, 60, 96, 255nn2–3, 274n56; and maturity transformation, 159–60; panic in 2007 over, 299n45; risks of, 73, 162, 300n49; in risk-weighting approach, 185, 314n70; in structured investment vehicles, 161–62, 299n45
- Moynihan, Brian, 230n8, 232n17
- Munich Re, 327n65
- municipal debt, 201, 322n33, 323n36
- mutual funds, proposal to run financial institutions as, 308n45. *See also* money market funds
- Myers, Stewart C., 246n18, 305n21, 306n29
- narratives, 209–14; liquidity, 209–12, 330nn12–13, 330n18; reasons for success of, 213–14; solvency, 211–12
- narrow banking (full reserve banking), 151, 271n38, 295n18

- national bank holidays: German (1931), 256n8; U.S. (1933), 53, 62
- National Banking Act of 1863 (U.S.), 293n9
- National Banking System, U.S., bank runs under, 150
- nationalism, economic, 193–94, 199
- national politics. *See* politics
- National Transportation Safety Board, U.S., 327n64
- natural disasters: banking crises compared to, 148–49; in Japan, xi, 206–7
- Nestroy, Johann Nepomuk, 148
- Netherlands: costs of bailouts in, 292n39; failure of Icelandic banks and, 238n51, 320n19; history of banking in, 250n16
- net stable funding ratio (NSFR), 272n42
- netting, 85–86, 267nn15–17
- net worth, 25
- New York City, debt of, 201, 322n33
- Nocera, Joe, 234n27, 259n34, 282n14, 297n33, 300n47, 300n50, 314n71, 331nn20–21, 332n28, 336n54
- nonprofit citizens' groups, 206, 213, 327n66
- nonrecourse mortgage clauses, 21, 23, 240n5
- Norris, Floyd, 329n8
- Northern Rock: bailout of, 256n13, 258n27, 266n9; runs on, 273n46
- Noss, Joseph, 290n28, 291n34
- nostalgia for traditional banking, 46, 247n1
- notes. *See* banknotes
- NOW accounts, 248n5
- Noyer, Christian, 192–93
- NSFR. *See* net stable funding ratio
- nuclear disaster in Japan (2011), analogy of financial crises, xi, 206–7
- Obama, Barack, 138, 332n28
- Oehmke, Martin, 300nn52–54
- off-balance-sheet entities, 83–84, 124, 190, 257n17, 266n7, 266n11
- Office for Financial Research, U.S., 327n64
- oil price shocks of 1970s, 52
- Olson, Mancur, 319n10, 326n60, 331n25
- Onaran, Yalman, 268n22, 273n51, 304n13, 304n19
- Opel, 246n14
- open-end mutual funds, 308n45
- options, stock, 214
- Orange County (California), scandals involving derivatives in, 71
- “other people’s money,” 215–17, 333n36. *See also* corporate governance
- output, during financial crisis of 2007–2009, 5, 146, 233n19, 237n42
- overhang. *See* debt overhang
- Palepu, Krishna G., 266n8
- Pandit, Vikram, 232n18, 274n60
- panics, 51–53; in liquidity narrative of financial crisis of 2007–2009, 211; over mortgage-related securities (2007), 299n45
- Paredes, Troy, 265n3
- partnerships, in history of banks, 30–31, 282n14
- Partnoy, Frank, 260n37, 260nn40–41, 261nn43–44, 262n53, 284n24, 296n28, 329n6, 329n8, 332n30
- Paulson, John, 296n32
- Pauzner, Adi, 330n17
- payment system(s), 149–53; benefits to economy, 49; fragility of banking system and, 149–53; as infrastructure of economy, 49; role of banks in, 149–50; role of deposits in, 150, 293n10
- payouts to bank shareholders: benefits of ban on, 172–76, 182, 189, 223; Federal Reserve on, 175, 306n27, 312n57; during financial crisis of 2007–2009, 174–75, 306n27; Modigliani–Miller on, 305n22. *See also* dividends
- “pecking order” hypothesis, 173, 305n21
- Pecora hearings (1933), 321n27
- peer-to-peer lending, 50, 249n10
- Peltzman, Sam, 262n52, 326n60, 331n25
- Peltzman effect, 262n52
- penalties. *See* fines and penalties
- performance, return on equity as flawed measure of, 116, 120–21
- performance pay, 122–27. *See also* compensation
- personal bankruptcy. *See* bankruptcy, personal
- Pfleiderer, Paul, 278n20

- pharmaceutical industry, risks and funding in, 166
- physicists, in banks versus elsewhere, 196–97
- plumbing metaphor, 210
- political campaign contributions, by banks, 203, 205, 213, 324n46
- political lobbying. *See* lobbying
- political power, of large banks, 270n33
- political will, 227–28
- politics of banking regulation and supervisions, 192–207; banks as source of political funds, 193–94, 200–203, 205, 213; convenient narratives in, 209–14; flawed arguments in, 213–14; international competition in, 193, 194–99, 318n8; international differences in, 194; in international negotiations, 193, 318n8; “level playing field” concerns in, 10, 194–99; political will and, 227–28; regulatory capture in, 194, 203–7, 319n9; revolving door in, 203, 204–5, 324n44, 325n56; shadow banking and, 224–26; speech versus action in, 193
- pollution analogies, 13, 82, 97, 130, 197
- Portugal, banks as source of government funding in, 321n30
- position limits, proposals for stricter, 88
- power, of banks: monopoly, 249n12, 275n4; political, 270n33
- Pozen, Robert C., 285n32
- Pozsar, Zoltan, 296n31, 335n53
- preferred equity, in TARP, 305n26
- prepackaging, in bankruptcy, 245n12, 247n19
- prepayment, of mortgages, 44, 247n20, 254n47
- Prescott, Edward S., 316n81
- President’s Working Group on Financial Markets, 261n45
- Pressler, Jessica, 229n3
- prevention of bank failures, strategies for, 81–95, 218–24
- price fixing, by banks, 276n5
- PricewaterhouseCoopers, 233n21
- Prieto, Esteban, 232n18, 242n20, 243n27, 310n52
- prime mortgages, 254n43
- Prince, Chuck, 126
- Principle of Unripe Time, 171–72
- prison, debtors’, 36, 244n6
- private companies, borrowing by, 7–8, 234n26
- prompt corrective action, and capital conservation buffers, 189–90
- proprietary trading, 90, 266n14
- protectionism, 193–94
- Prussian Bank, 272n45
- public, U.S. versus French definitions of, 324n42
- public budget, central banks and, 157
- public corporations: balance sheets of, 241n12; governance of, 241n10
- public interest groups, 206, 213, 327n66
- public money, large trading losses with, 71, 260n40
- purchasing power of money, 157, 296n26, 297n37
- quantitative risk models: development of, 196–97; limitations of, 73, 170; in risk-weighted approach, 184, 186, 313n66, 313n68, 314n73
- quantity of money, definitions of, 294n10
- Quinn, Stephen, 293n8
- Raines, Franklin, 283n16
- Rajan, Raghuram G., 248n9, 249n12, 249n14, 301n56
- Rajan, Uday, 248n9
- Ranieri, Lewis, 253n42
- rare events, risks of, 190–91
- rating agencies. *See* credit rating
- real estate bubbles, 56, 287n8, 314n71, 330n18
- real estate finance: as a cause of banking crises, 56; as a cause of financial crisis of 2007–2009, 65. *See also* mortgage(s)
- recessions (downturns): of 2008–2009, 5, 11, 233n19; associated with financial crises, history of, 233n19; duration of recovery after, 172, 304n16; fears of, in delay of regulation, 171–72; and risks of lending, 56
- referees, home-team bias of, 205, 326n59
- Regalia, Martin A., 248n2

- regulation. *See* banking regulation
- Regulation Q, 53, 251n26, 299n46
- regulatory arbitrage, 288n10, 308n47, 335n53.  
*See also* shadow banking
- regulatory capture, 203–7; causes of, 204–5; definition of, 194; effects of, 206; example of, 319n9; in financial crisis of 2007–2009, 204; revolving door and, 204–5, 325n56.  
*See also* lobbying
- rehypothecation, 301n55, 317n88
- Reichsbank, in banking crisis of 1931, 272n45, 294n14
- Reilly, David, 266n13
- Reinhart, Carmen M., 65, 239n1, 244n3, 249n15, 258n22, 258n24, 276n6, 295n16, 296n26, 297n38, 322n34, 323n37, 331n19
- repo (repurchase) agreements: in bankruptcy, exceptions for, 164, 227, 236n35, 300n54, 301n55, 336n57; collateral in, 164, 300n54, 301n55; definition of, 164; runs, 300n54
- repurchase agreements. *See* repo agreements
- required return on equity. *See* return on equity, required
- research, assumptions about bank fragility in, 3. *See also* fragility of banking system
- reserve banking, full. *See* narrow banking
- Reserve Fund, establishment of, 251n27
- Reserve Primary Fund, impact of Lehman bankruptcy on, 62
- reserve requirements. *See* cash reserve reserves, cash. *See* cash reserve
- residential lending. *See* mortgage(s)
- resolution of failed institutions, 76–78; attempts to create viable mechanism for, 13, 77, 239n53; challenges of, 76–77, 89, 264n66; complexity of, 76–77, 89, 262n62; cross-border burden sharing in, 77, 139; by FDIC, under Dodd-Frank Act, 76, 77, 138–39, 239n53; importance of viable mechanism for, 13, 78; industry coverage of cost of, 78, 264n67; international issues in, 76–77, 139, 262n59; lack of viable mechanism for, 77, 139, 263n63; living wills in, 77, 263n65; subsidiaries in, 76–77, 262n62
- retail banks: versus investment banks, risks of, 90–91; ring fencing of, 90, 321n28. *See also* commercial banks; savings and loan (S&L) institutions
- retained earnings, 29, 172–76, 182, 189
- return on equity (ROE), 115–28; bankers' claims about, 115; and compensation of bankers, 116, 122–25, 283n19; in culture of banking, 115, 125–28, 284–85nn29–30; as flawed measure of performance, 116, 120–21; impact of guarantees and subsidies on, 130; impact of increased equity on, 115–20, 280n1; in mortgages, 117–19, 118t, 135, 280n7, 287n7; versus return on debt, 100–101, 119–20, 281n8, 282n11; risk appetite and, 122; target, 120–22
- return on equity (ROE), required, 106–13; amount of borrowing and, 107–10; bankers' claims about, 100–101, 221–22; for contingent convertible bonds, 317n83; debt-equity mix and, 107–10, 112–13, 116, 120; definition of, 106, 120; impact of increased equity on, 120; target ROE as, 120
- revolving-door effect, 203, 204–5, 324n44, 325n56
- Ricardo, David, 320n18
- Richardson, Matthew, 331n22
- Riegle, Donald W., Jr., 252n35
- Riesser, Jakob, 242n20
- rights offering, 175
- ring fencing, 90, 321n28
- risk, in banking; approaches to controlling through regulation, 87–92; in compensation, 104, 107, 123–25, 284n27; illusion of fine-tuning measurements of, 183–87; innovations to transfer, 57; media coverage of, 55–56; as normal, 253n40. *See also specific types of risk*
- risk, in borrowing, 17–31; by banks, 13–14, 130; by corporations, 26–31; for home mortgages, 18–24, 102–3; leverage and, 19, 107; mechanisms of, 17; by sole proprietorships, 24–26
- risk appetite, and target return on equity, 122
- risk management, new techniques for: examples of, 68–70; safety of, 70–74

- risk models: development of, 196–97; limitations of, 73, 170; in risk-weighted approach, 184, 186, 313n66, 313n68, 314n73; in stress tests, 186–87
- risk premium, definition of, 104
- risk taking: in compensation of bankers, 104, 107, 123–25, 284n27; excessive, in financial distress, 33, 41–43; guarantees' impact on, 145, 291nn37–38; in innovation, 216
- risk-weighted assets: in Basel II, 177, 183, 184–85, 312n64, 313n66; in Basel III, 176–77, 183, 307n36, 312n64, 314n68, 323n35; definition of, 235n28; European regulation of, 303n6; illusion of fine-tuning measurements in, 183–87; models used for, 184, 186, 313n66, 313n68, 314n73; municipal debt in, 323n36; problems with approach, 177, 183–86, 312nn62–64, 313n68; process of calculating, 176–77, 183–84; sovereign debt in, 177, 184, 323n35; stress tests and, 186–87
- Robinson, James, 319n10
- Rochet, Jean-Charles, 313n67
- ROE. *See* return on equity
- Rogoff, Kenneth, 65, 239n1, 244n3, 249n15, 258n22, 258n24, 276n6, 295n16, 296n26, 297n38, 322n34, 323n37, 331n19
- Rohatyn, Felix, 326n8
- Rome, ancient, default in, 36, 244n4
- Romer, Paul M., 252n33
- Rosengren, Eric S., 214, 302n3, 305n25, 309n47, 327n65, 332n29
- Rosner, Joshua, 234n27, 258n34, 300n47, 300n50, 325n49, 329n8, 331nn20–21, 332n28, 336n54
- Ross, Carne, 324n46, 327n66
- Rothbard, Murray N., 250n16
- Roubini, Nouriel, 314n68
- Royal Dutch Shell, 269n29
- Rubin, Robert, 204, 230n7
- Rumsfeld, Donald, 73
- runs, bank, 51–53; in Great Depression, 52–53, 93; history of, 52–53, 93, 150; in liquidity narrative of financial crisis of 2007–2009, 209–11, 330n13; liquidity problems and, 52, 93; mechanisms of, 51–53, 331n19; models of, 330n17; versus repo runs, 300n54; and savings and loans institutions, 248n2; and self-fulfilling prophecies, 52, 250n19; solvency problems in, 52–53, 152, 211; vulnerability to, as unnecessary, 150–53
- Sächsische Landesbank: bailout of, 266n9, 299n45; solvency problems of, 258n27, 299n45, 325n55
- SAFE (Safe, Accountable, Fair, and Efficient) banking act (U.S.), 270n33
- safekeeping contracts, 151, 293n8
- safety, bank: importance of, 10–13; as key objective of banking regulation, 217, 219; new risk management techniques and, 70–74
- safety nets: for liquidity problems, 39–40, 93, 210–11. *See also* guarantees
- safety standards, in airline industry, 206, 327n64
- Salomon Brothers, 253n42
- San Bernardino County (California), troubled mortgages in, 245n10
- S&L. *See* savings and loan
- Santomero, Anthony M., 312n67
- Sarbanes-Oxley Act of 2002 (U.S.), 127–28
- Sarkozy, Nicolas, 1, 3, 192, 203
- savings accounts, erosion of restrictions on competition with checking accounts, 248n5
- savings and loan (S&L) crisis of 1980s, U.S.: cost of, 55, 139, 289n20; deposit insurance after, 251n22; failure of many institutions in, 333n41; flawed regulations contributing to, 88; geographic restrictions and, 88, 202; limited international impact of, 65; origins of, 54–55; solvency problems in, 54–55, 252n35
- savings and loan (S&L) institutions: balance sheets of, 47–49, 48f, 248n4; deposit insurance for, 251n22; deregulation of, 54–55, 94, 251n28; failure of, 47, 248n2; geographic restrictions on, 88, 202; under Glass-Steagall Act, 46, 47–49; in Great Depression, 47, 248n2; growth of, 145; interest rates of, restrictions on, 53, 54;

- junk bond investments by, 54–55, 273n50;  
looting of, 252n33; money market funds  
as competition for, 53–54; mortgage  
loans made by, 54, 58, 159, 252n32; origins  
and history of, 47, 145, 248n2; solvency  
problems of, 54–55, 94, 252n32, 252n35;  
3-6-3 business model of, 53–54, 57
- savings deposits, in balance sheets, 48,  
248n4
- scandals: accounting, 214; involving  
derivatives, 70–71, 328n6; LIBOR, 208,  
209, 215, 276n5, 328n2, 328n4; in summer  
of 2012, 328n6
- scare tactics, 3, 10. *See also* bugbears
- Schaefer, Stephen, 278n22
- Schmidt, Reinhard H., 323n39
- Schnabel, Isabel, 251n20, 273n45, 292n38
- Schoenmaker, Dirk, 263n63
- Schularick, Moritz, 233nn18–19, 331n19
- Schwartz, Anna, 250n18, 251n21, 256n7,  
294n10
- Schwartz, Eduardo, 243n2
- Schwartz, Nelson D., 264n66
- SEC. *See* Securities and Exchange Commission
- second mortgages, 34, 44, 240n5, 247nn21–  
22, 286n5
- secrecy, of trading strategies for derivatives,  
71–72, 261n43
- Securities and Exchange Commission  
(SEC): in implementation of Volcker  
Rule, 265n3; in investment bank  
regulation, 334n43; litigation by, 228,  
296n32; money market funds under,  
232n16, 309n47; regulatory capture in,  
204; risk weights under, 177
- securitization: definition of, 57; origins of,  
57, 159, 253nn42–43
- securitization, of mortgages, 57–59;  
creditworthiness assessments and, 58,  
248n9; in financial crisis of 2007–2009,  
59, 60; history of, 159, 253n43; inter-  
connectedness in, 68, 259n33; maturity  
transformation and, 159–61, 298n42,  
298n44; in mortgage-backed securities,  
159, 255n2; problems created by, 58–59,  
156–57; in risk-weighting approach, 185,  
314n71
- Selgin, George, 250n16, 293n8
- Senate Banking and Currency Committee,  
U.S., Pecora hearings of 1933 in, 321n27
- services: associated with deposits, 49, 148;  
of investment banks, 266n14
- settlements, legal, 108, 277n16, 315
- shadow banking, 224–26, 335nn52–53,  
336n55
- Shakespeare, William, 36
- shareholders. *See* corporate shareholders
- shares: conflicts of interest in buybacks of,  
126–27; issuance of new, 18, 28, 175, 182,  
189, 241nn14–16, 246n17, 306n29;  
registered versus bearer, 241n13
- Shaw, Edward S., 250n17
- Sherman, Senator, 242n22
- Sherman Act of 1890 (U.S.), 276n5
- Shibut, Lynn., 252n34, 289n20, 293n3
- Shiller, Robert, 254n43
- Shilling, James D., 252n33
- Shin, Hyun S., 330n17
- Shleifer, Andrei, 277n13
- short-term debt of banks: as beneficial to  
economy, 231n14; claimed disciplining  
effect of, 164, 301n56, 317n83; as factor in  
financial crisis of 2007–2009, 66, 164–65,  
238n46; interest rates on, 138, 251n25,  
281n10; liquidity problems in, 39–40, 63;  
in maturity transformation, 158–59;  
money market funds and, 62–63, 67; net  
stable funding ratio and, 272n42; safety  
nets for, 93
- SIFIs. *See* systemically important financial  
institutions
- silent participations, 315n79, 319n8
- Silver-Greenberg, Jessica, 244n6, 264n66
- Sinclair, Upton, 115, 116
- Singapore Sovereign Wealth Fund, 96
- Singer, Paul, 327n65
- Singh, Manmohan, 301n55, 317n88
- single-counterparty credit limit proposal,  
268n24
- Sinn, Hans-Werner, 233n19, 238n47,  
323n39
- SIVs. *See* structured investment vehicles
- size of banking sector: excess capacity in,  
172, 202, 293n5, 304nn17–18; ideal, 182–83,

- size of banking sector (*continued*)  
335n48; need for reductions in, 176, 182–83
- size of banks: efficient scale for, 50–51, 89, 144, 270n31, 290n29; higher capital requirements and, 221, 335n48; impact of subsidies on, 89, 130, 144, 270n31; as largest companies in world, 89, 269n29; as percentage of GDP, 238n49; regulatory restrictions on, 89, 270n33. *See also* too big to fail
- Sjögren, H., 253n38
- Skeel, David A., Jr., 232n16, 236n35, 300n54, 301n55, 317n88
- slavery, defaulting borrowers sold into, 36, 244n4
- small-business lending of banks: as beneficial to economy, 51; in risk-weighting approach, 185, 314n70
- Smith, Yves, 230n9, 268n21, 285n32, 285n37
- social benefits: of banking regulation, 82–83; of capital requirements, 82–83, 98, 130, 147, 149, 166, 180–81, 221
- social costs: of bailouts, 82, 137, 146, 193, 318n7; of bank borrowing, 8–9, 10, 33; of bank debt-equity funding mix, 146; of bank failures, 78; of banking regulation, 82, 97, 265nn4–5; of bank payouts to shareholders, 174; of capital requirements, 180, 309nn51–52; of financial crises, 82; of financial crisis of 2007–2009, 209, 330n11; of performance pay, 123; of poor regulation and enforcement, 214–17; proposals for addressing, 81–82; of subsidies, 145–47
- Société Générale, 260n39, 324n45
- society. *See* social benefits; social costs
- soft information, in creditworthiness assessments, 50, 248n9
- sole proprietorships: balance sheets of, 24, 25f; borrowing by, 24–26
- solvency, definition of, 32
- solvency problems (insolvency), 40–43; asset sales and, 63; in bank runs, 52–53, 152, 211; book values versus market values in, 268n22; capital regulation's impact on, 94–95; conflicts of interest in, 41, 43; contagion mechanisms and, 63; de facto insolvency, 273n51; definition of, 40; delays in admitting to, 43, 171–72, 246n19; difficulty of evaluating, 40–41; of European banks, 170, 302n4; in financial crises, 211, 331n19; in financial crisis of 2007–2009, 40, 66, 211–12, 246n15, 257n17; financial distress and, 41–43; guarantees and, 93–94, 152; hidden, 54–55, 171–72, 304n13, 304n19; importance of assessing, 176; importance of preventing, 81, 171–72; versus liquidity problems, 93, 152; from maturity transformation, 159, 160; narrative of, 211–12; recklessness in response to, 43; in savings and loan crisis of 1980s, 55, 252n35; of savings banks, 54–55, 94, 159, 252n32, 252n35; strategies for preventing, 218–24; tests for, 41
- Sorkin, Andrew R., 238n47
- sovereign (government) debt: banks as lenders for, 200–203, 240n1; central banks and, 170, 298n39, 302n4; costs of, 102, 276n6; in European crisis of 2010–2011, 56–57, 170; in Latin American crisis of 1980s, 56–57; versus private borrowing, 239n1; in risk weighting, 177, 184, 323n35. *See also specific countries*
- sovereign (government) default: and banking crises, 202; banks as source of government funding and, 200–202; as creditors' problem, 244n3; by Greece, 103–4, 170, 177, 201, 244n3; history of, 240n1; by Mexico, 322n33; risk of, 102, 200–201, 276n6, 322n32
- Sowerbutts, Rihannon, 290n28, 291n34
- Spain: banks as source of government funding in, 321n30; costs of bailouts in, 292n39; default risk and interest rates in, 103, 276n7; EU support of banking in, 12, 239n52; failure of banks in, 12, 143, 240n1, 333n41; hybrid securities in, 315n77; mortgage debt in, 240n4; real estate bubble in, 56, 330n18; savings banks in, 47; solvency problems in, 304n19, 331n18; sovereign debt in, 170
- Spamann, Holger, 285n35



- special interest groups, influence of, 205, 213–14, 326n60
- special-purpose vehicles, in securitization, 253n42
- speed limits, 191
- sports: competition in, versus productive exchange, 195; home-team bias motivating capture of referees and regulators, 195, 205, 326n59
- Squam Lake Report. *See* French, Kenneth
- stability, financial: 1930s–1970s period of, 53, 65, 148, 252n36, 253n40; and economic growth, false choice between, 5; as key objective of banking regulation, 217, 219; lack of constituency for, 214–17, 327n65, 332n29; strategies for preventing bank failures and, 218–24
- Stanton, Thomas H., 285n32, 285n37
- state, U.S. versus French concept of, 324n42
- Staub, Markus, 253n38, 271n39
- steel industry subsidies, analogy to bank bailout subsidies, 199
- Steffen, Sascha, on carry trade and risk, 276n8, 281n9, 289n16
- Stewart, Jimmy, 247n1
- Stigler, George M., 326n60, 331n25
- Stiglitz, Joseph E., 324n46
- stock(s): average return on, 107, 277n15; bank versus nonbank, 8, 182; in compensation, 123; market value of, 86–87, 112–14; required return on, 107, 277n14. *See also* equity
- stock exchanges, corporate debt and, 234n26
- stock market, U.S.: crash of 1987 in, 262n51; technology bubble of 1990s in, 60, 61, 255n3
- stock options, 214
- Stout, Lynn, 285n32
- strategic theory of international trade, 320n23
- stress tests, 186–87; limitations of, 170, 186–87, 315n76; risk assessment with, 73, 186–87, 315n76
- structured investment vehicles (SIVs): breakdown in funding for, 299n45; definition of, 159; regulation of, 161–62; risks of, 162
- subprime mortgage(s): claimed to be short-term loans, 298n44; in financial crisis of 2007–2009, 60–61; interest rates on, 276n12
- subprime mortgage crisis, U.S.: careless lending in, 56; contagion in, 60–61; dividends paid during, 174–75; flawed regulation as factor in, 323n38; versus technology bubble of 1990s, 60, 61
- subprime-mortgage-related securities: reasons for impact of losses from, 60–61; value of losses from, 60, 255n2
- subsidiaries, in resolution of failed institutions, 76–77, 262n62
- subsidies, 129–47; for bank borrowing, 9, 129–30, 137–38, 139–40, 235n30; for corporate borrowing, 130, 139–40; costs of, to society, 145–47; explicit (*See* explicit guarantees); externalities and, 197–99; guarantees as type of (*See* guarantees); implicit (*See* implicit guarantees); and international competition, 197–99; perverse, 13, 81, 130, 139, 188, 198, 226; and size of banks, 89, 130, 270n31; tax, 139–40, 188
- Sumitomo Corporation, 260n39
- Summers, Lawrence, 230n7, 298n39, 331n19
- Sundaresan, Suresh, 316n81
- supervisors: assessment of insolvency by, 176; concern for international competitiveness, 319n8; in regulatory capture, 204–5; response to violations of capital requirements, 188–90; role in financial crisis of 2007–2009, 204, 212, 226, 336n56
- Sutton, Willie, 200, 321n29
- swaps: in bankruptcy, exceptions for, 236n35; use of term, 259n34. *See also* credit default swaps
- Sweden: banking crisis of 1992 in, 65, 88; banking reform supported by, 199; cleanup of banks in, 176; universal banks in, 253n41
- Swiss Bank Corporation, 127, 269n28
- “Swiss finish,” 321n28
- Switzerland: bank bailouts by, 11, 96, 237n38; bank debt as percentage of GDP of, 238n50; banking reform supported by, 199, 321n28; capital regulation in, 321n28;

- Switzerland (*continued*)  
costs of bailouts in, 292n39; crisis of early 1990s in, 253n41, 271n39; interest on mortgages in, 289n21; registered shares in, 241n13; success of banking in, 195–96, 199; universal banks in, 253n41
- systemically important financial institutions (SIFIs): capital “surcharges” for, 265n5, 275n2, 280n1; default by, 10–11; definition of, 218; failure of, 75; identification of, 90–91, 232n16, 271n37; implicit guarantees for, 139; incentives for becoming, 130, 142–45; nonbank, 90–91, 271n37; questionable efficiency of, 144; resolution mechanisms for, 76–77, 138–39, 239n53; use of term, 236n36. *See also specific institutions*
- tail events, 314n73
- Taleb, Nassim N., 230n9, 261n50, 262n51, 284n26
- TALF. *See* Term Asset-Backed Securities Loan Facility
- TARP. *See* Troubled Asset Relief Program
- Tarullo, Daniel K., 302n2, 312n60, 313n66
- taxes: on capital gains, 282n15, 289n22, 289n24; contingent convertible bonds and, 188; corporate debt in, 112, 139–40, 188, 226–27; and debt-equity funding mix, 140, 188, 226–27; externalities and, 197–98, 320n22; interest payments on mortgages and, 140, 289nn21–22; subsidies for borrowing and, 130, 139–40, 226–27
- taxpayers. *See* social benefits; social costs; subsidies
- Taylor, Alan, 233nn18–19, 331n19
- TBTF. *See* too big to fail (TBTF) institutions
- teaser rates, 34, 243n2, 298n44
- technology bubble of 1990s, 60, 61, 255n3, 256n6
- telecommunications, monopolies in, 327n63
- Temin, Peter, 273n45
- TEPCO. *See* Tokyo Electric Power Company
- Term Asset-Backed Securities Loan Facility (TALF), 288n14
- Tett, Gillian, 230n9, 259n34, 261n50, 300n47, 300n50, 331nn20–21, 336n54
- Texas: nonrecourse mortgage clauses in, 240n5; savings and loan crisis of 1980s in, 88
- textile industry, 199
- TFEU. *See* Treaty on the Functioning of the European Union
- Thackeray, William Makepeace, 32, 244n7
- Thakor, Anjan, 278n22
- Thiemann, Matthias, 266n9, 300n47, 319n8, 336n54
- Thornton, Daniel, 322n32
- 3-6-3 business model, 53–54, 57
- Tilly, Richard H., 242nn21–22, 248n8, 272n45
- Tirole, Jean, 252n30, 252n33, 301n56
- Tobin, James, 294n10
- Tokyo Electric Power Company (TEPCO), xi, 206–7
- too big to depict, 269n30, 333n40
- too big to fail (TBTF) institutions: borrowing costs of, 143; calls for restructuring of, 218, 269n30, 333n40; current status of, 12, 89; history of, 89, 238n48; incentives for becoming, 130, 142–45, 218; Lehman bankruptcy as exception to, 74, 238n48; origins of concept, 12; strategies for preventing failure of, 218–24; subsidies associated with, 144, 270n31; versus too many to fail, 91. *See also* systemically important financial institutions
- too big to save, 89, 143
- too many to fail, 91, 142, 333n41
- Torous, Walter, 243n2
- tourism industry, 196
- Tracey, Belinda, 270n31, 290n29, 291n34
- traders, gender of, 329n7
- trading book, 312n62, 312n64, 314n70
- Transaction Account Guarantee Program, 273n48
- transparency, in derivative markets: lack of, 71–72, 261n43; proposal to increase, 204, 325n51
- Treasury, U.S.: on profits from bank bailouts, 209, 329n10; regulatory capture in, 204; and run on money market funds, 62
- Treasury bills, U.S.: average return on, 107; versus cash, 296n27

- Treasury–Federal Reserve Accord of 1951, 298n39, 322n32
- Treaty on the Functioning of the European Union (TFEU), 235n32, 276n5, 298n39
- Trichet, Jean-Claude, 252n37, 324n45
- Troubled Asset Relief Program (TARP): cost of, 292n39, 329n10; and dividend payments, 175, 305n26; as implicit guarantee, 137; inefficient use of, 245n10
- trucking industry, speed limits and risks, analogy to risk and regulation in banking, 191
- trust-preferred securities, 315n78
- trustworthiness, of banks, 50, 153, 249n11
- Tsatsaronis, Kostas, 279n23
- tsunami, Japanese, xi, 206–7
- Turner, Adair, 222–23, 267n18, 270n35, 271n38, 325n53, 335n49
- Twain, Mark, 158
- Tyrie, Andrew, 319n8
- UBS: asset sales by, 257n16; balance sheet of, 267n18; culture of ROE at, 125–26, 127; debt as percentage of assets in, 236n37, 267n18; debt as percentage of Swiss GDP, 238n50; formed by merger of Union Bank of Switzerland and Swiss Bank Corporation, 127, 269n28, 285n36; government bailout of, 11, 96, 237n38; versus JPMorgan Chase, 267n18; lack of governance for risk management, 285n37, 300n50; 334n45; losses from mortgage-related securities of, 96, 254n43, 274n56; risk-weighted assets of, 314n69; solvency problems of, 177, 308n40
- UBS Investment Bank, 125
- Ueda, Kenichi, 290n28
- UK. *See* United Kingdom
- UN. *See* United Nations
- unanticipated risks, 73–74, 261–62nn50–51
- underwater mortgages, 20–21, 42, 95, 133, 246n18
- unemployment, in financial crisis of 2007–2009, 233n20, 237n42
- “unintended consequences”: bankers’ claims about, 3, 9–10, 230n10; bugbear of, 3, 9–10, 224; in scare tactics, 3, 10
- Union Bank of Switzerland, 127, 285n36
- United Kingdom (UK): bank debt as percentage of GDP of, 238n50; bank failures in, 55; Bank Act of 1844 in, 293n9; Banking Act of 2009 in, 289n18; banking reform supported by, 199, 321n28, 325n53; banknotes in, 149–50, 151, 250n16, 293nn6–9, 294n15; costs of financial crisis of 2007–2009 in, 233n19, 237n42; defaults on mortgages in, 34, 243n1; failure of Icelandic banks and, 238n51, 320n19; implicit guarantees in, 137; Lehman Brothers bankruptcy in, 77; limited-liability banks in, rise of, 30; politics of banking regulation in, 318n8; regulatory capture in, 204, 325n53; resolution of failed institutions in, 77, 239n53; ring-fencing proposal in, 90, 321n28
- United Nations (UN), on impact of financial crisis of 2007–2009, 237n42
- United States: accounting rules of, versus European rules, 84f, 85–86, 266n11, 266n13, 267n15, 267n18; auto industry of, 8, 235n29; bank holiday of 1933 in, 53, 62; debt ceiling of, 322n32; debt of largest banks in, 12; debtors’ prisons in, 36, 244n6; GDP of, 233n19, 237n42, 238nn49–50; limited liability in, rise of, 30; monetary policy of, 298n39; sovereign default by, risk of, 201, 322n32. *See also specific agencies, crises, institutions, and regulations*
- universal banks: balance sheets of, 48; diversification of risk in, 253n41; history of, in Europe, 248n3; interconnectedness of, 334n45
- unlimited-liability businesses, banks as, 30–31, 153
- unsecured lending, interest rates for, 256n13
- utilities, financial, 271n37
- Valencia, Fabian, 288n12, 292n39, 304n16, 307n33
- value at risk measures, 230n9
- Valukas, Anton, 11, 236n37, 237n39, 237n43, 317n89

- Van Hemert, Otto, on problems in securitization, 254nn43–44, 297n33
- Van den Heuvel, Skander J., 309n51
- Vanity Fair* (Thackeray), 32, 244n7
- venture capitalism, 216
- vesting periods, 241n13
- Vietnam War, 52
- Vishny, Robert W., 277n13
- Vitter, David, 311n53
- Volcker Rule: delays in implementation of, 265n3; lobbyists' influence on, 3, 231n10, 231n13, 270n34; provisions of, 3, 90
- Wallison, Peter, 323n38
- Wal-Mart: book value of, 268n21, 279n24; equity of, 98; market value of, 279n24
- Wang, Zhenyu, 316n81
- Walter, John B., 288n10, 308n44
- Washington Mutual (WaMu), 243n2, 273n46
- weakness of banking system. *See* fragility of banking system
- Weder di Mauro, Beatrice, 290n28
- Weinstein, David, 249n12, 275n4
- WestLB, 259n29, 318n7
- Whitaker, Stephan, 245n10
- White, Lawrence J., 252n33, 273n50
- wills, living, for financial institutions, 77, 263n65
- Wilmarth, Arthur E., Jr., 284n29, 319n9, 326n62
- Wolf, Martin, 177–78, 193, 285n35
- World Bank, 238n50
- World Bank Group, 237n42
- WorldCom: bankruptcy of, 61; culture of ROE at, 284n29
- world economy, impact of subprime mortgage crisis on, 60
- World War I, financing of, 178
- Wuffli, Peter, 261n49
- Yafeh, Yishay, 249n12, 275n4
- Yang, Jing, 279n23
- Yorulmazer, Tanju, 284n22
- Zandi, Mark, 129, 286n1, 289n17
- zero-equity loans, 135–36, 287–88nn8–9
- Zingales, Luigi, 326n56
- zombie banks, 55, 176, 223
- Zuberbühler, Daniel, 319n15
- Zubrow, Barry, 265n5, 275n2, 280n1
- Zuckerman, Gregory, 296n32