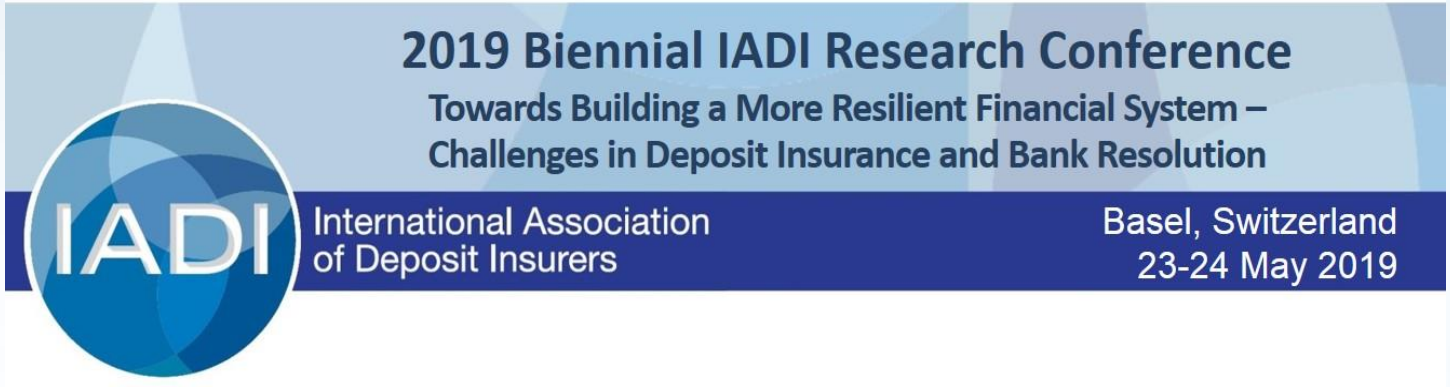

The Spillover Effects of Forced Bank Recapitalizations and Government Guarantees

Arun Gupta

Federal Reserve Board

Regulatory Application

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  - One strong subsidiary in NY
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- **Possible Solution?**

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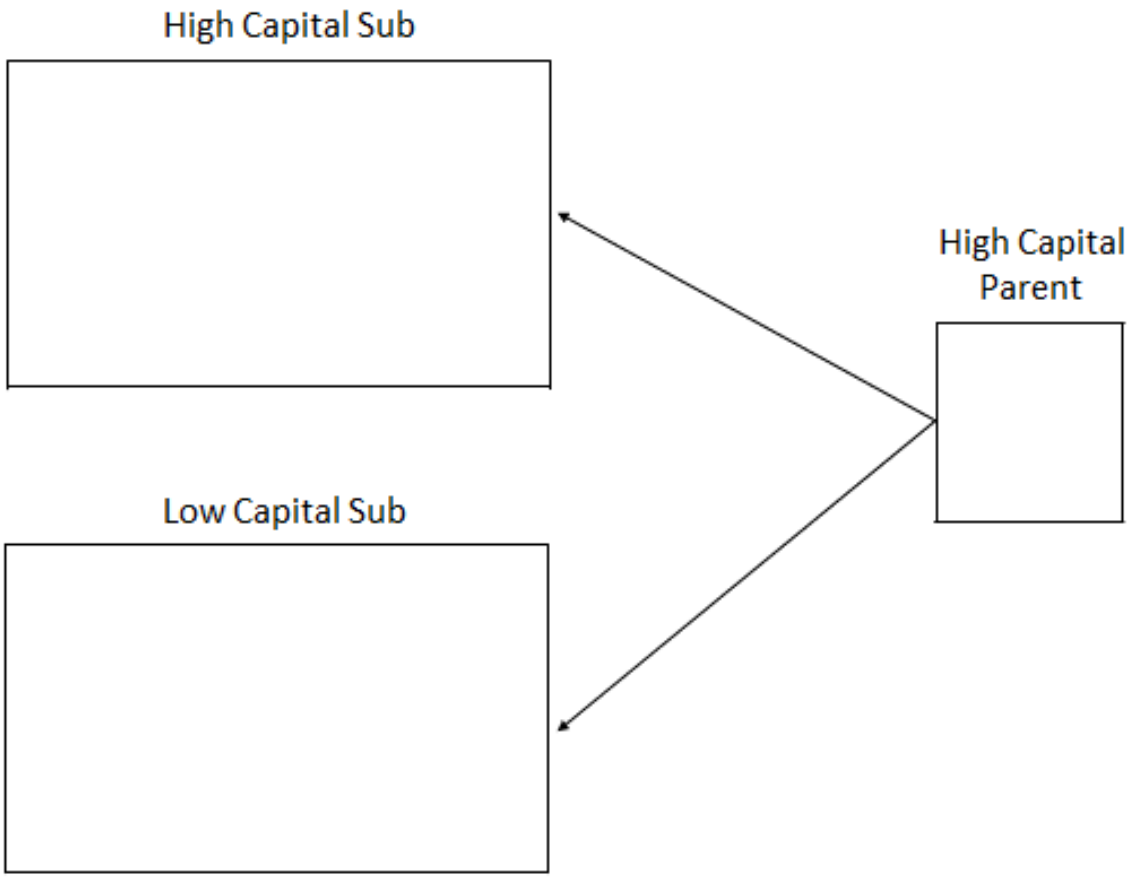
- Raised optimal capital ratio at weak subsidiary

Balance Sheet View of Results



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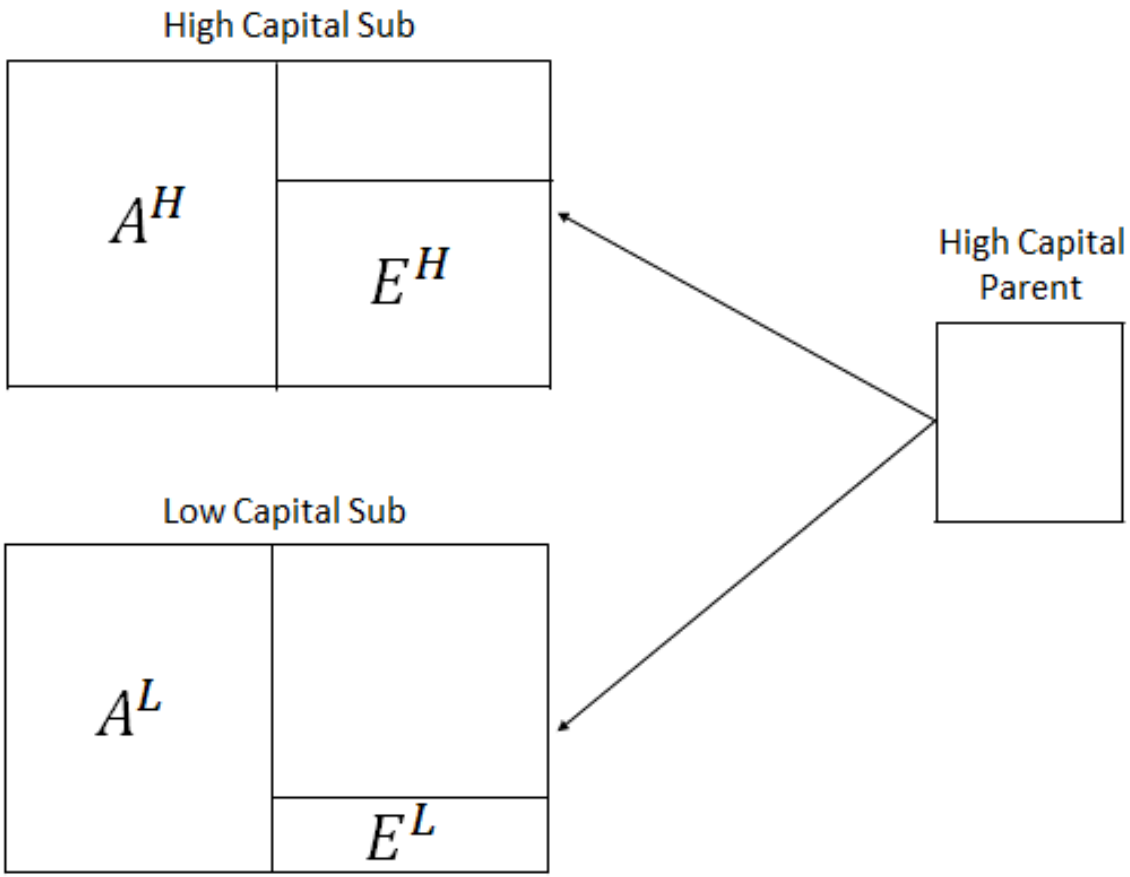

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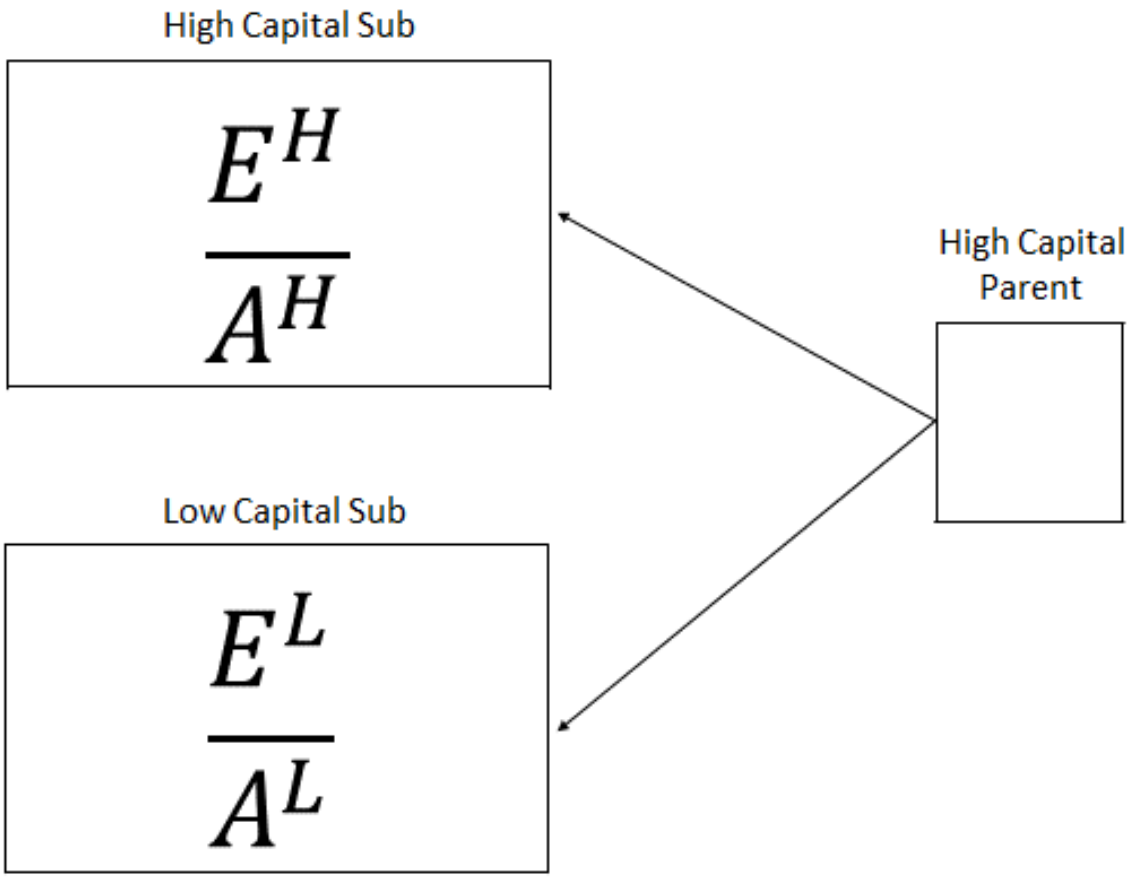

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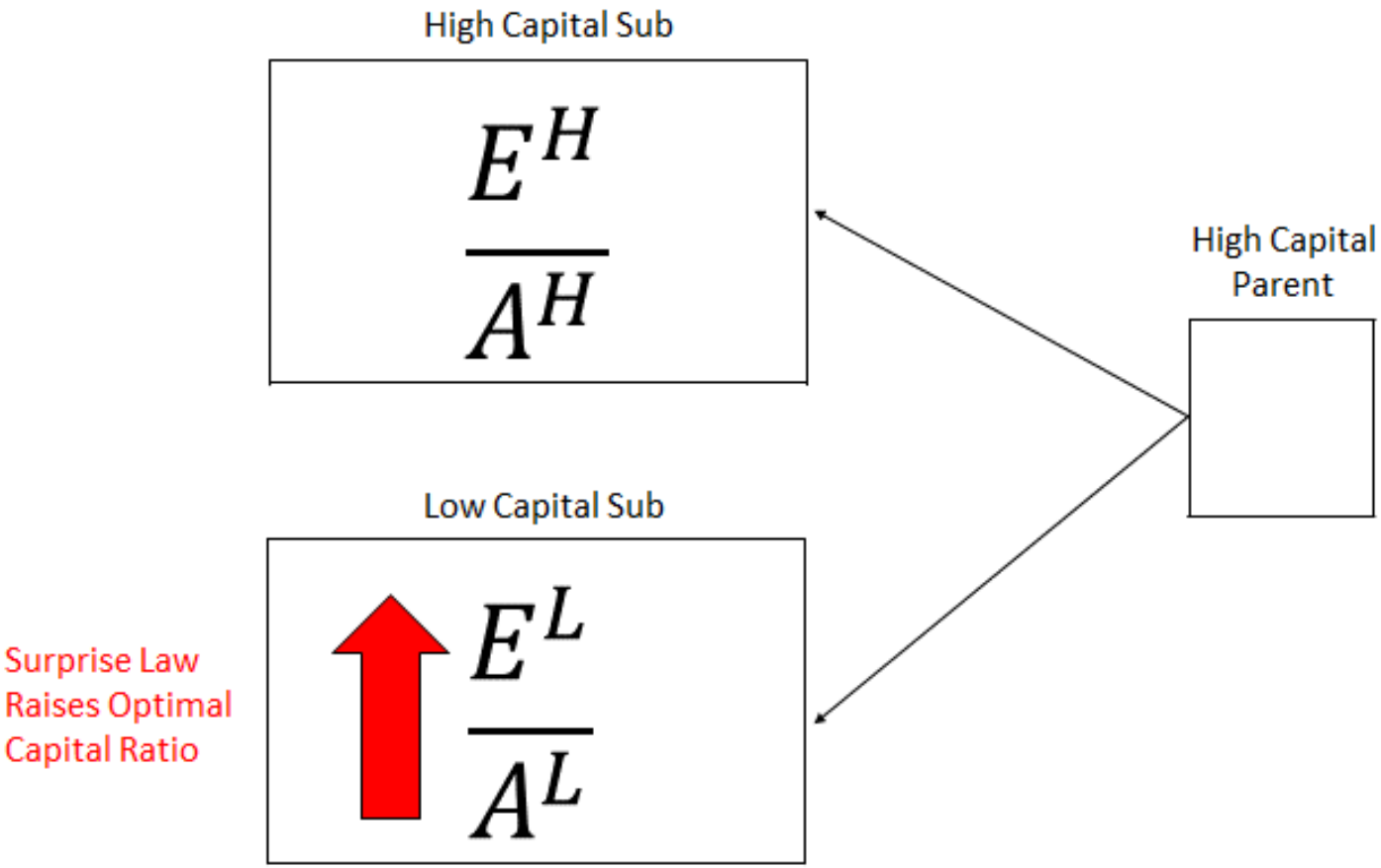

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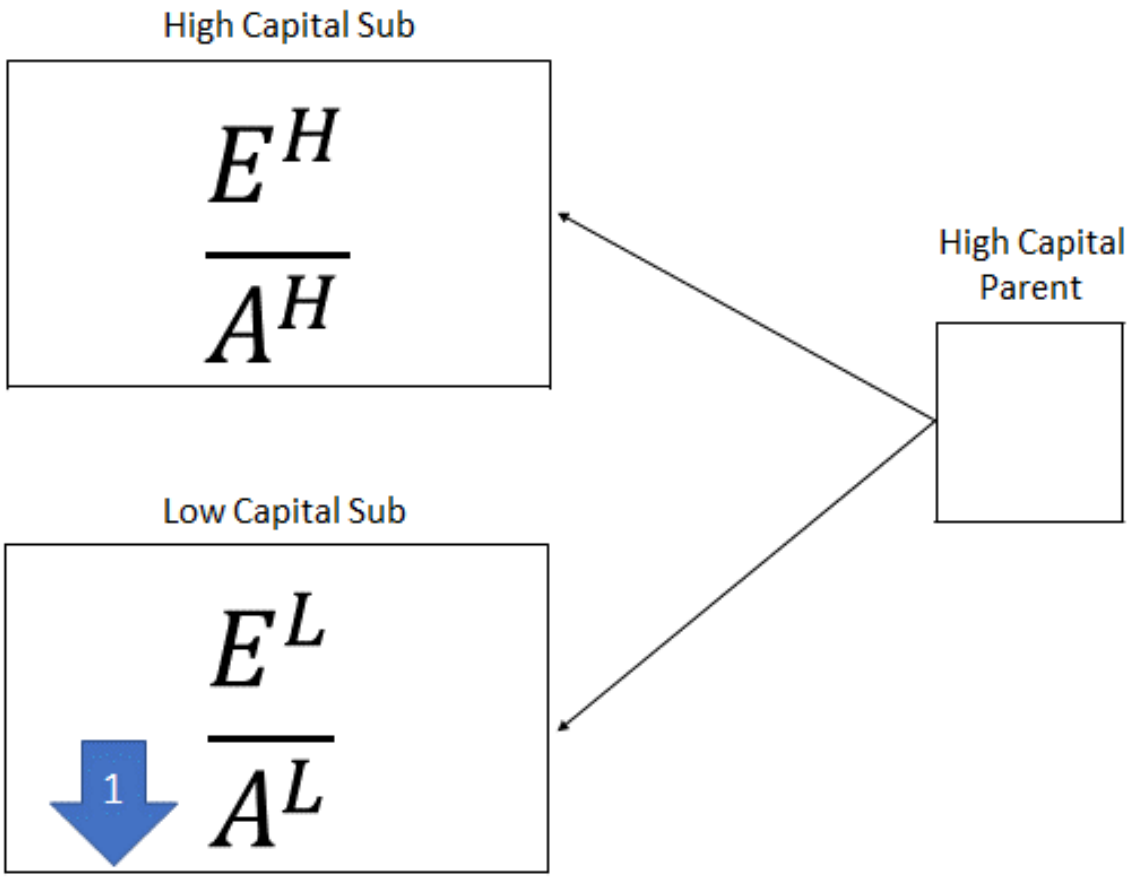

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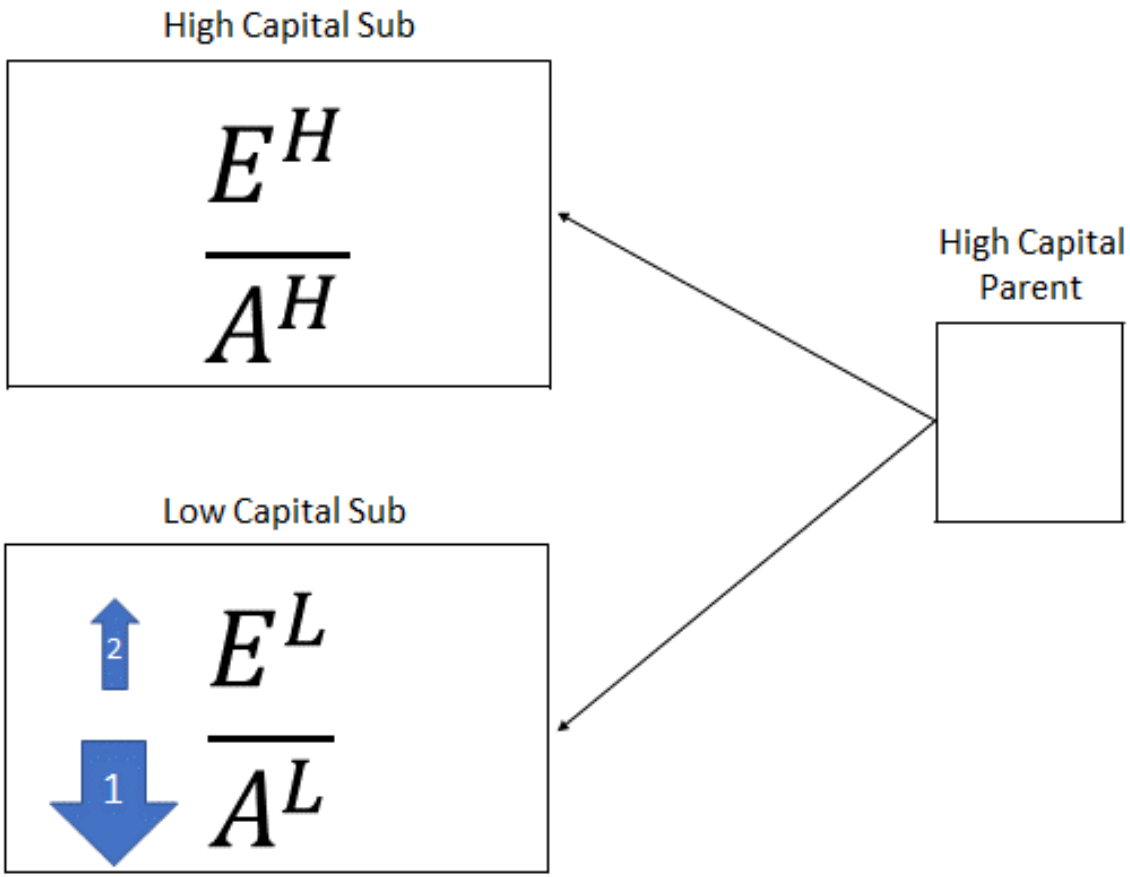

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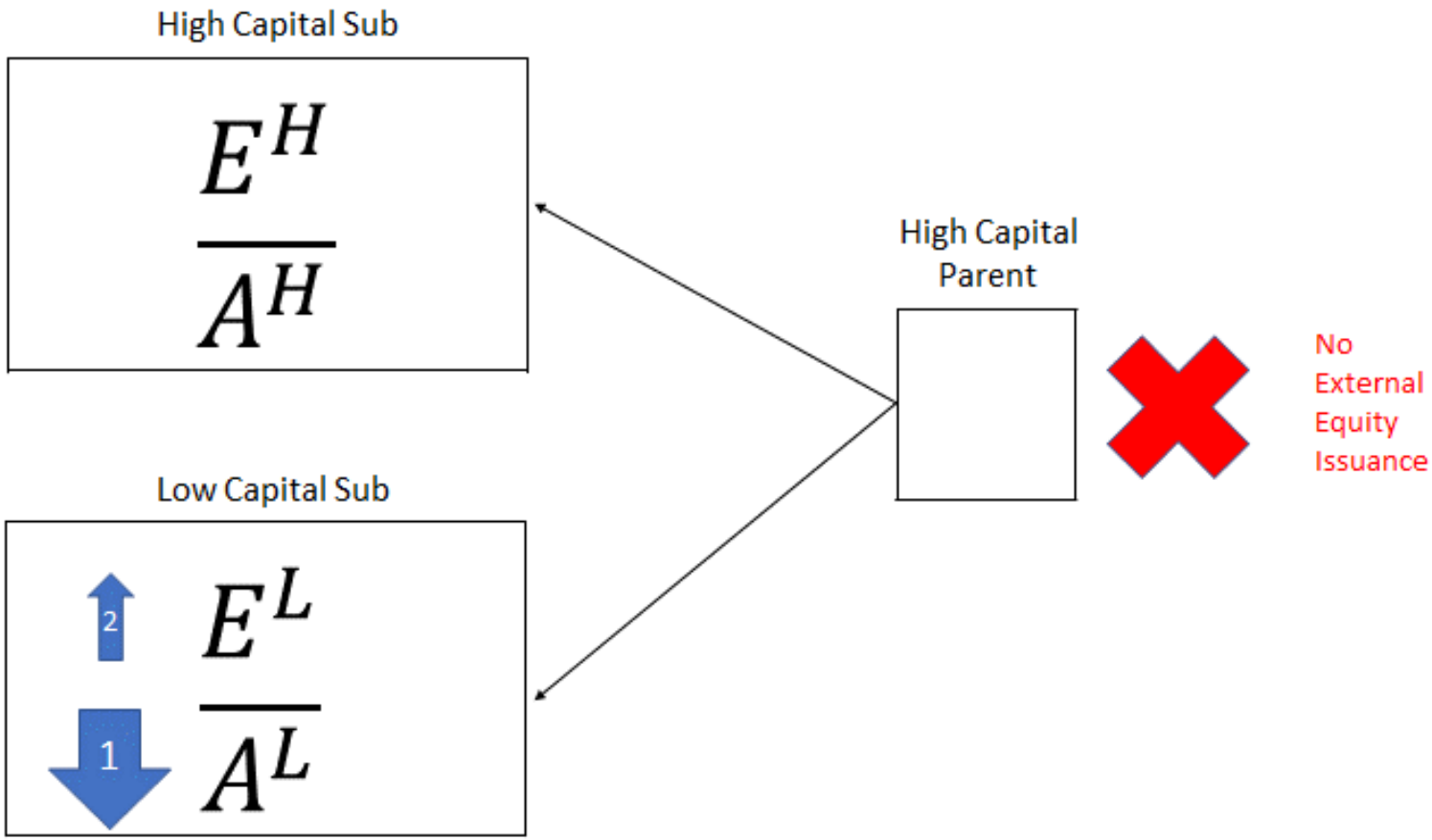

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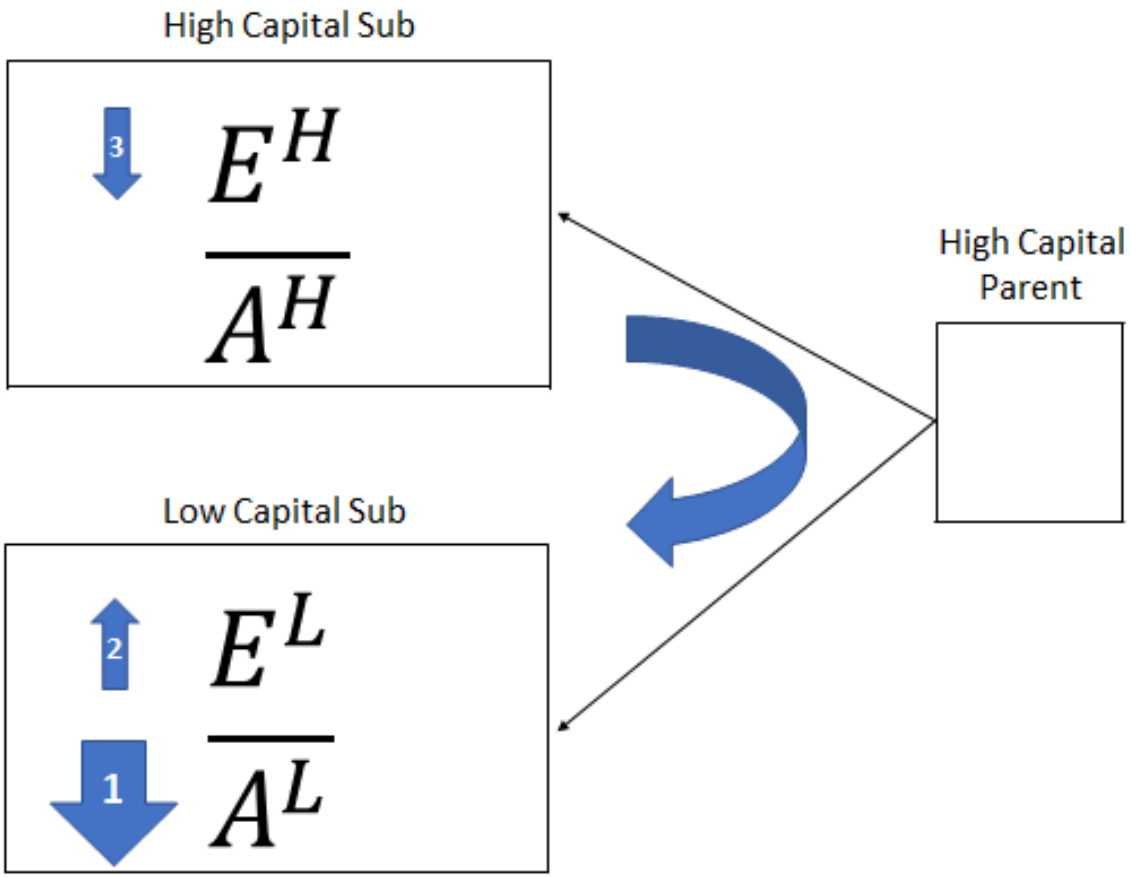

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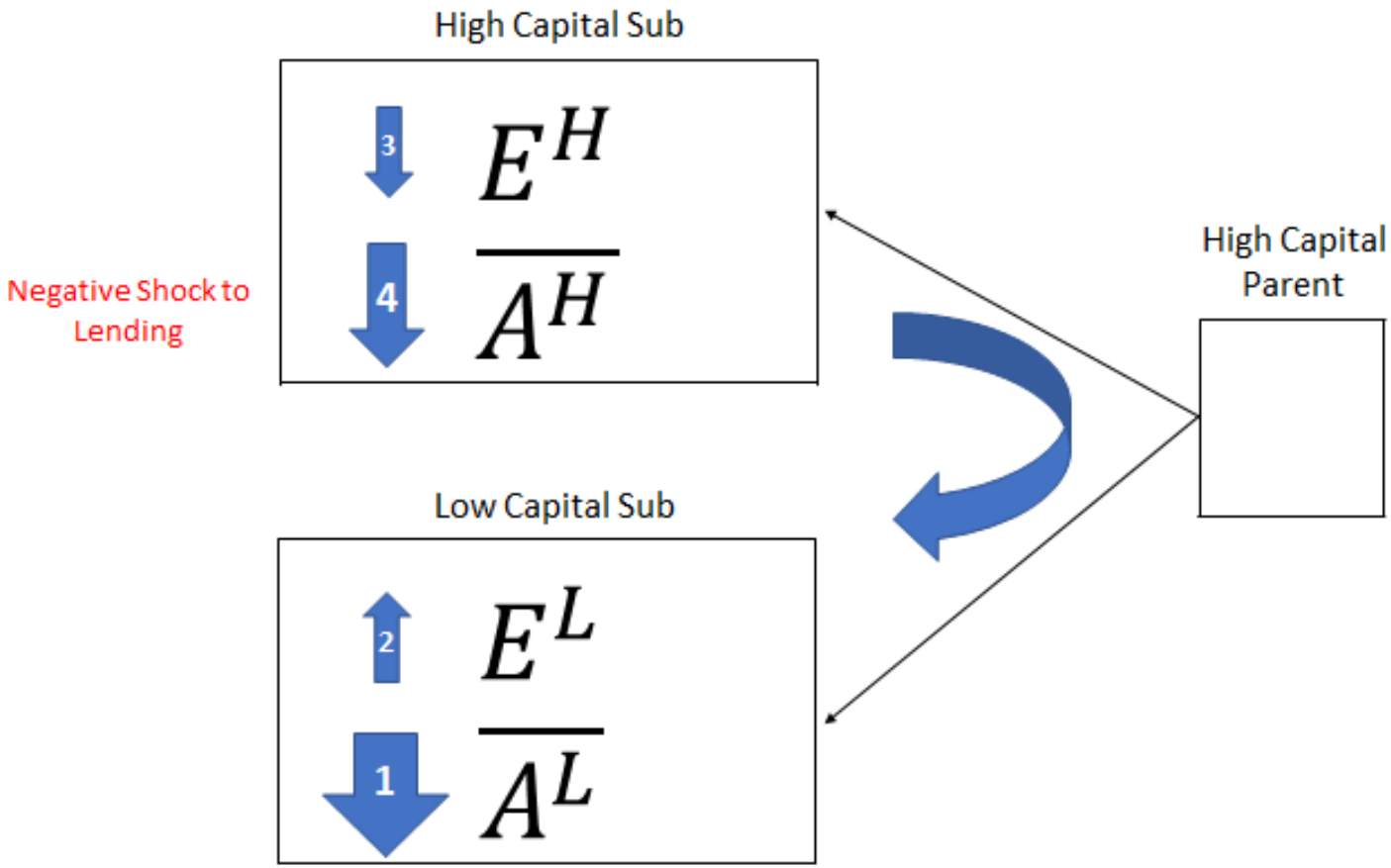
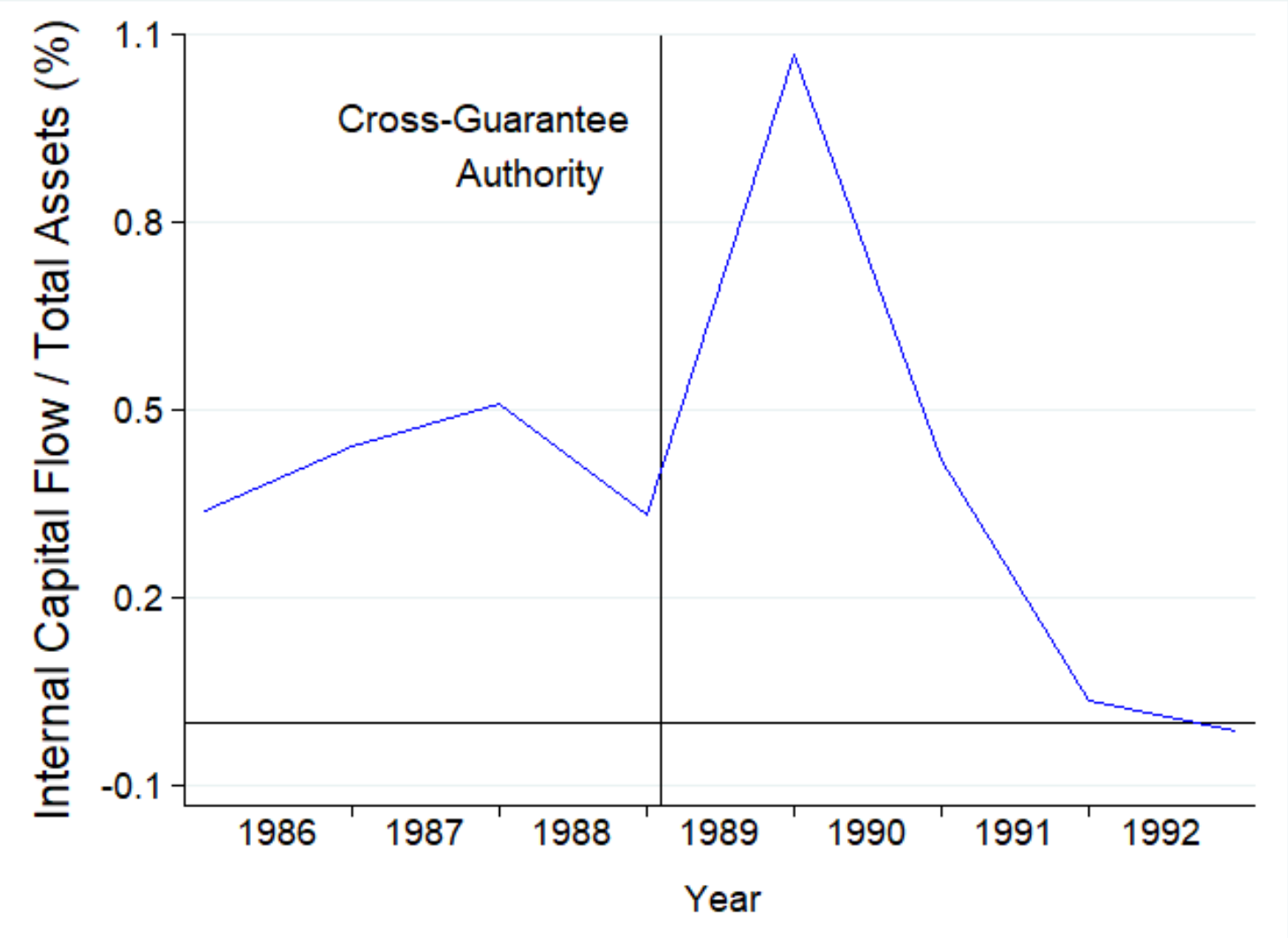
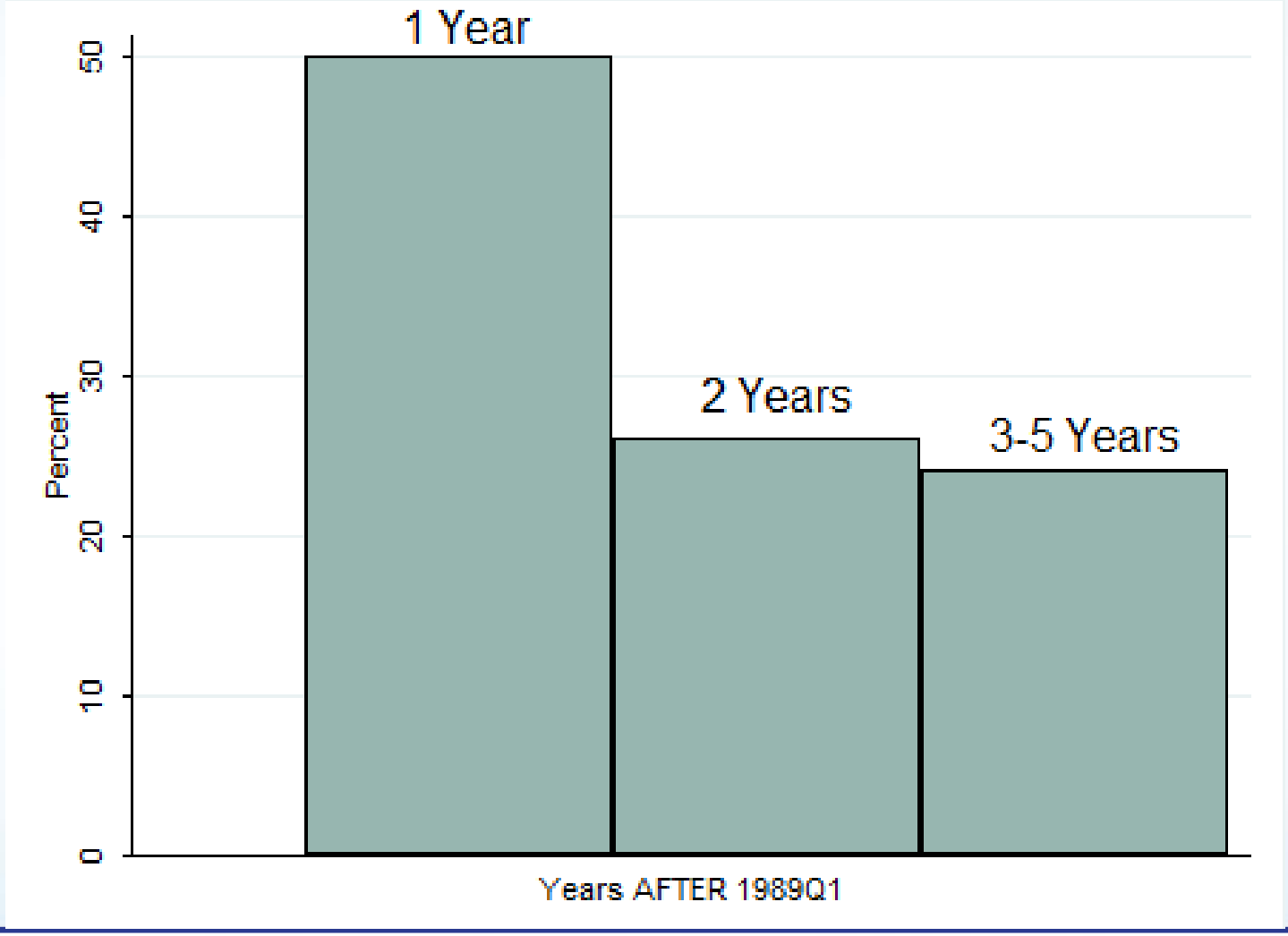


INTERNAL CAPITAL TRANSFER RESULTS

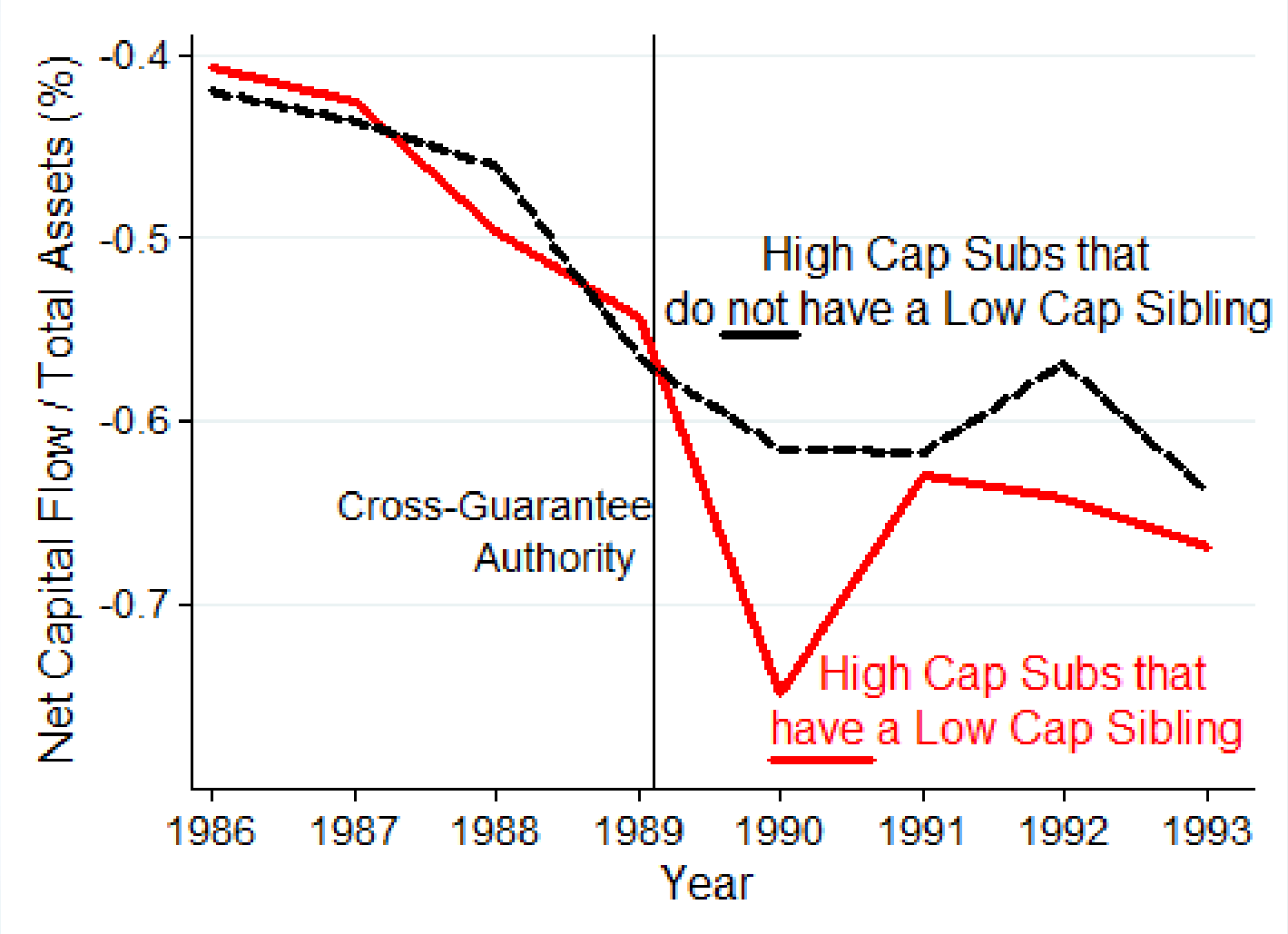
Low Capital Subsidiaries



Recapitalization Speed of Low Capital Subs

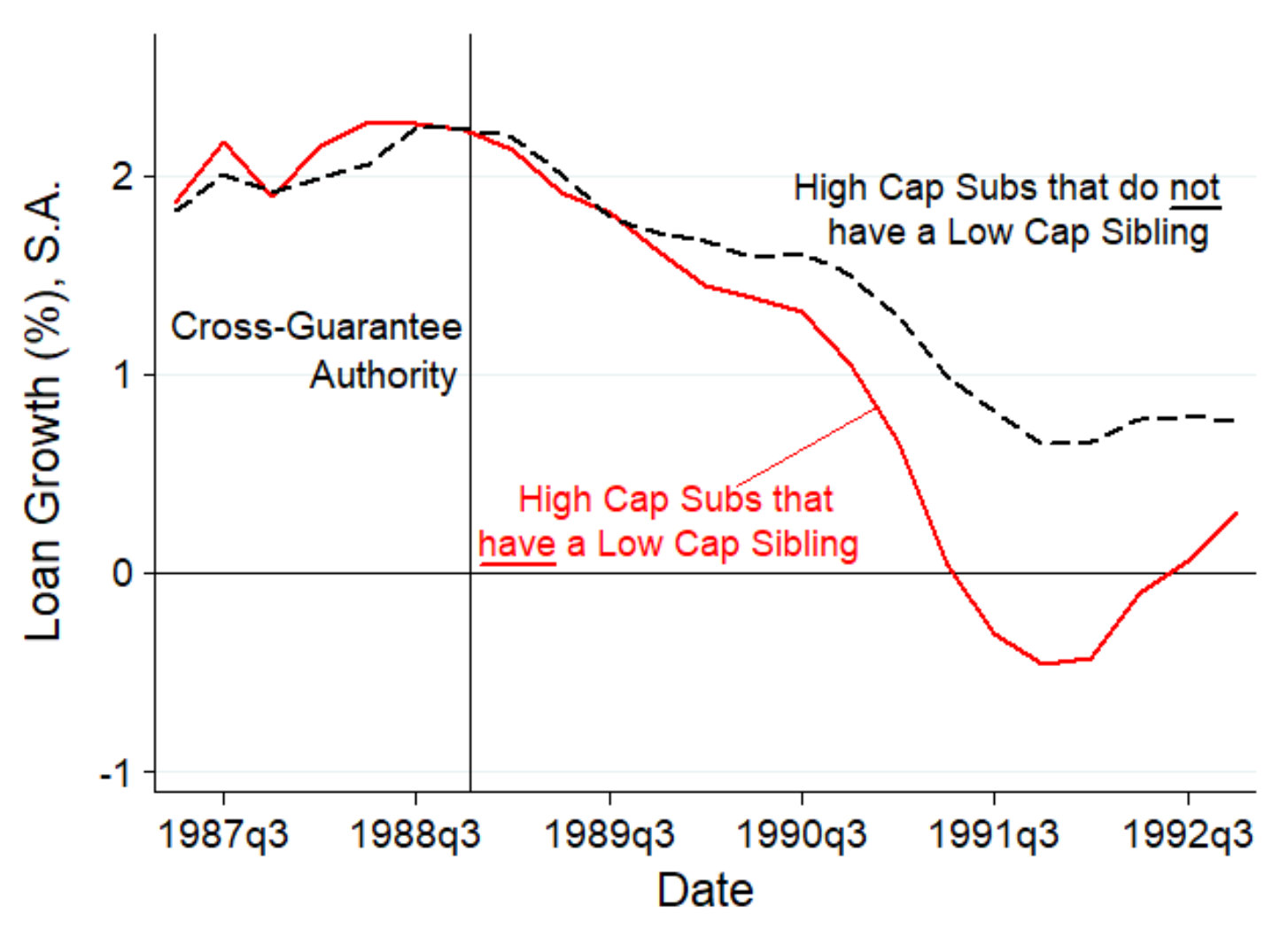


High Capital Siblings

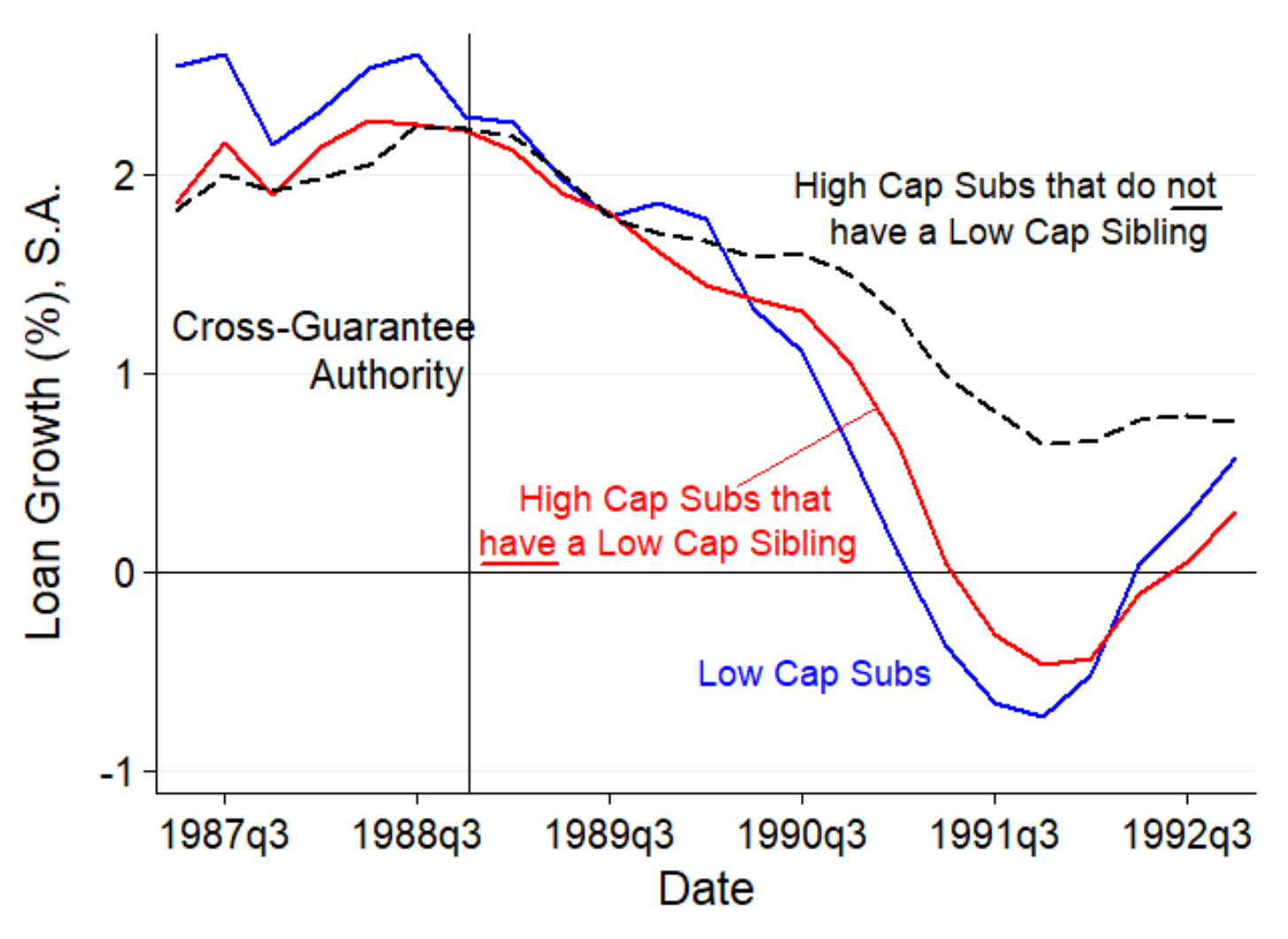


SPILLOVER EFFECTS ON SIBLING LENDING

High Capital Subs



Consolidated Lending Effects



Conclusion

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- **G-SIFI application: International policy coordination important**

Unilateral policy actions to protect the national deposit insurance fund can transmit negative spillover effects to the credit growth of siblings in foreign jurisdictions.

IADI International Association of Deposit Insurers

THANK YOU
FOR YOUR ATTENTION

Arun Gupta

Federal Reserve Board
Washington DC, USA

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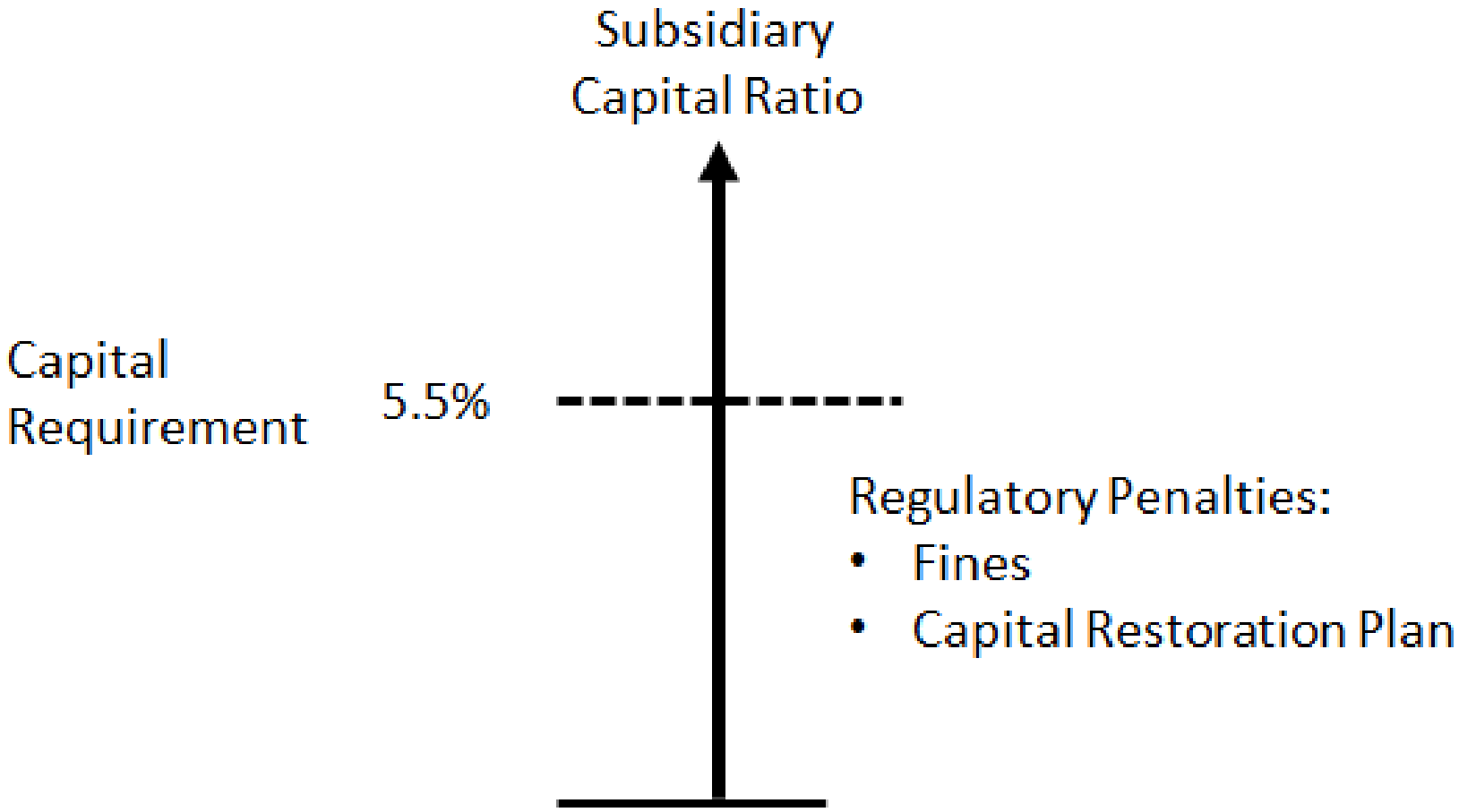
APPENDIX

Subsidiary Capital Requirements



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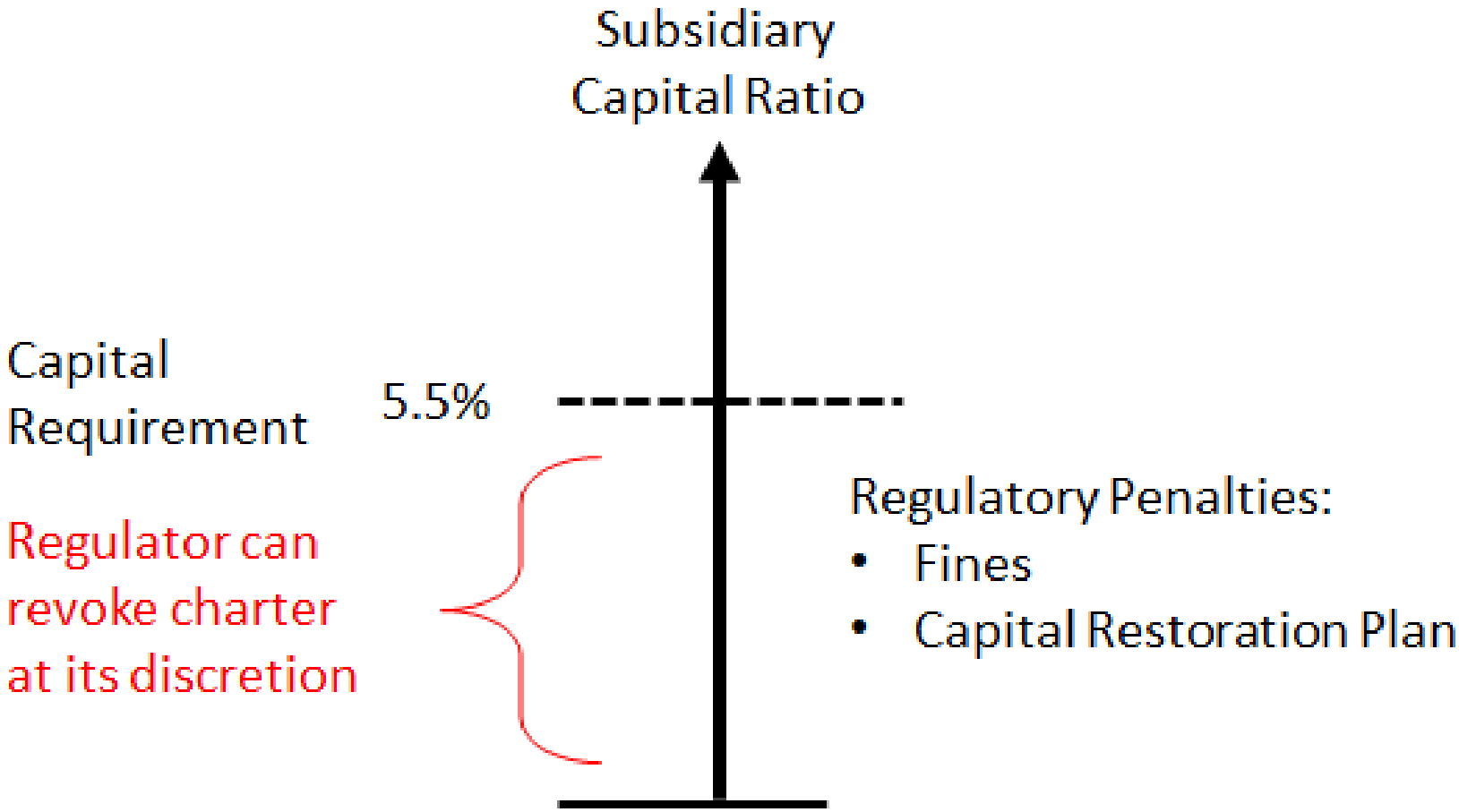

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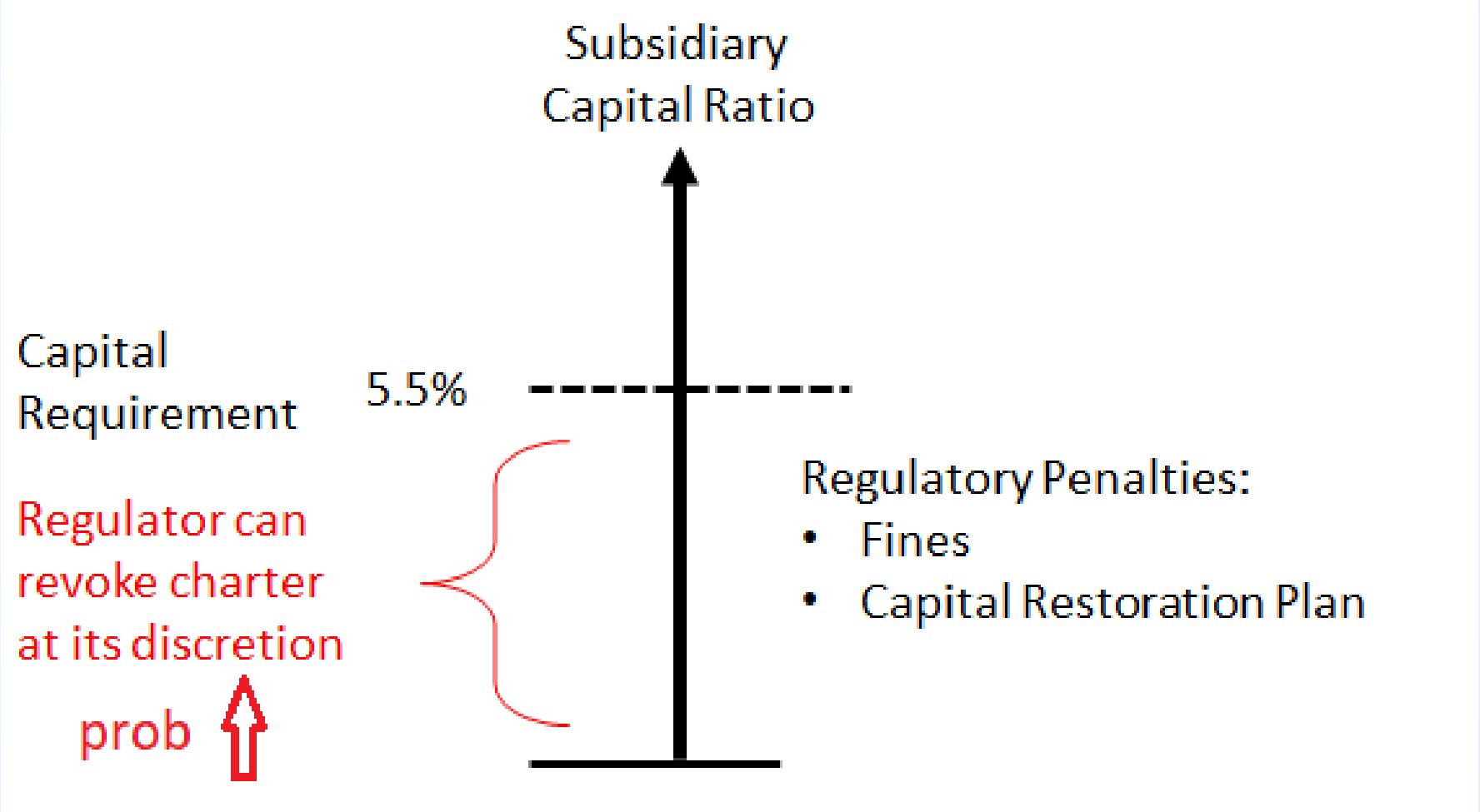
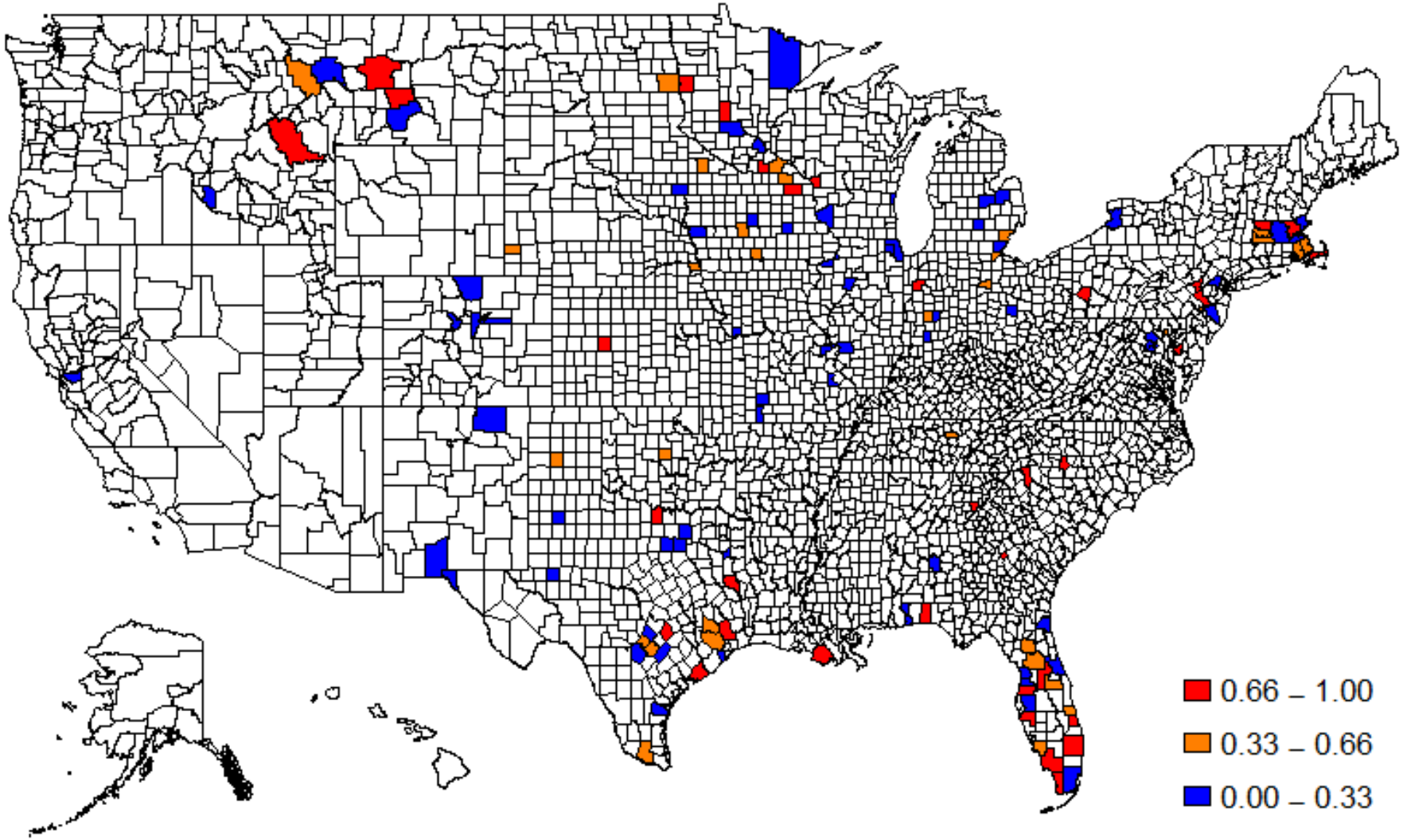


Locations of Low Capital Subs



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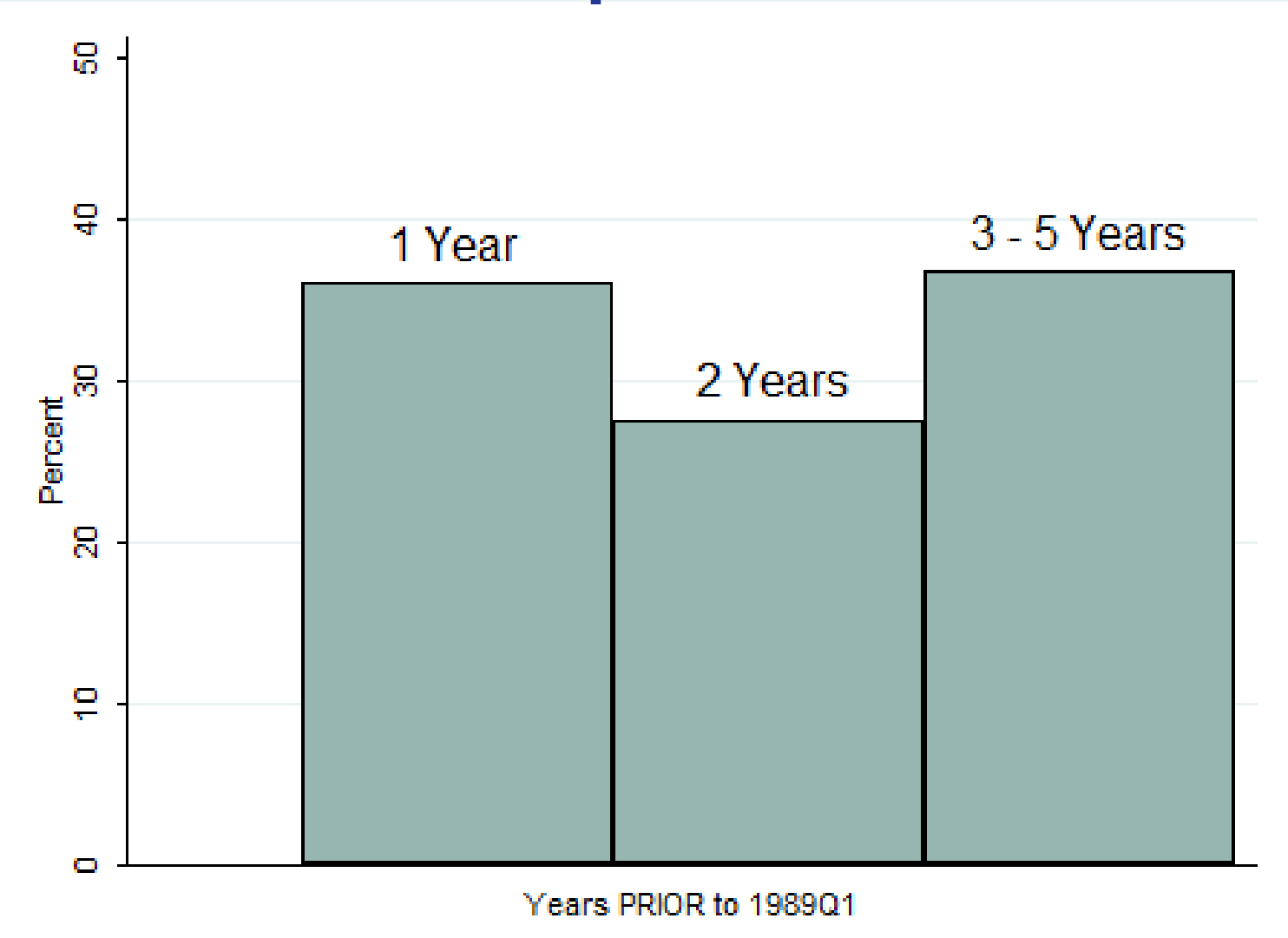
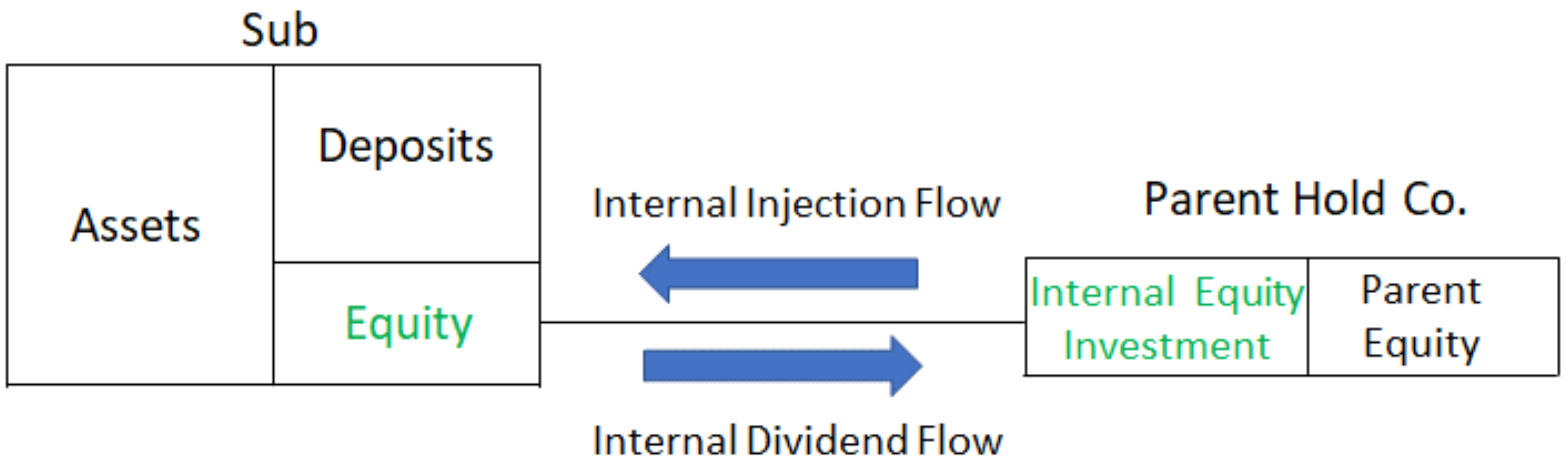
Persistence of Undercapitalization



Internal Capital Transfer Definition



$$\frac{Internal\ Injection\ Flow\ -\ Internal\ Dividend\ Flow}{Sub\ Assets}$$