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Hoenig worries about low interest rates, global banking risks

Staff and wire reports

Federal Deposit Insurance Corp. director Thomas Hoenig on Friday said his concerns about the Federal Reserve's low interest rate policy are the same as they were two years ago when he was a voting member of the central bank.

"Low interest rates distort the market, distort the allocation of capital. My position in two years hasn't changed," Hoenig told an American Banker conference Friday in Arlington, Va..

He added that low interest rates hurt community banks.

"They have to get some margin," said Hoenig, a former president of the Federal Reserve Bank of Kansas City.

The Fed announced Thursday that it would buy $40 billion of mortgage-backed securities each month until the labor market improves significantly, contributing to low interest rates.

Hoenig also said international bank regulators should delay implementing new rules on capital standards and stick with simpler alternatives to reduce risk in the financial system.

The Basel Committee on Banking Supervision, which brings together regulators from 27 countries, including the FDIC and three other U.S. agencies, revised global capital rules in 2010. The new regulations, which go into effect next year, will tighten the definition of what counts as capital, increase banks' minimum ratios and tighten how risk is defined in calculating those ratios.

The Basel rules have come under attack for increased complexity and allowing banks to game the system by playing with their risk models. Since 2004, the framework has allowed the largest banks to rely on proprietary models to determine how risky their assets are and how much capital they need. The 2010 revisions didn't change that risk weighting method. A simple leverage ratio would measure equity versus total assets, ignoring whether they're risky or safe.

"The committee should agree to delay implementation and revisit the proposal," Hoenig said. "Absent that, the United States should not implement Basel III, but reject the Basel approach to capital and go back to the basics."

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