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MARKETS & FINANCE | BANKING

Banks Ready to Put Billions to Work After Regulatory Win

Large lenders, sitting on some \$175 billion in excess capital, plan to fund more loans, chase deals and increase buybacks

BY GINA HEEB AND BEN GLICKMAN

America's banks are dusting off their spending wish lists.

After scoring a victory with regulators, lenders are preparing to put billions of dollars in potentially freed-up capital to use. Their top priorities aren't complicated: make more loans, invest in their businesses, give money back to shareholders and strike deals.

A hotly anticipated series of regulatory rules proposed Thursday would, in totality, lower the amount of extra capital that banks must hold as safety buffers. The plans are subject to a 90-day comment period before they can be finalized, so they could still change.

Huntington Bancshares Chief Executive Steve Steinour said the proposals were a productive step that couldn't only help banks and customers, but also unlock broader growth in the economy. Banc of California CEO Jared Wolff said he was encouraged that the proposals tie "capital more closely to the risk of the type of lending we're doing."

Bank executives, lobbyists and dealmakers said the proposals gave the industry a sense of clarity after years of uncertainty around where capital requirements might land.

"Actually knowing the rules allows the banks to play the game better," said Barclays bank analyst Jason Goldberg.

Regulation requires banks to set aside money in case loans go sour or markets tank. But the more capital the banks set aside, the lower their profit on each individual loan or trade. Large banks have been sitting on some \$175 billion in

excess capital, according to analysts at Morgan Stanley.

Executives say the looser rules will allow them to compete more in corners of lending they have largely abdicated because of the capital costs, like to riskier companies or private-equity firms striking deals. Banks have been losing market share to private-credit firms, which are willing to make riskier loans in exchange for higher interest rates.

"Think of what an opportunity" the capital changes would be "for banks to retake market share" from private credit, said Anton Schutz, president of Mendon Capital, an investment firm focused on banks.

Banks have also lost out to nonbank mortgage lenders like Rocket Mortgage and United Wholesale Mortgage since the 2008-09 financial crisis, a trend that Trump officials are seeking to reverse.

Michelle Bowman, the Fed's vice chair for supervision, said last month the capital rules had been overly punishing to mortgage activities, making them too costly for banks.

Looser capital requirements have drawn criticism from some corners in Washington. Detractors have argued that rolling back the rules puts the economy at risk and only benefits Wall Street. The Biden administration had planned to increase the amount banks had to hold following the series of regional bank failures in 2023.

"After a multiyear lobbying assault to gut modest safeguards on Wall Street risk-taking, big banks can now declare Mission Accomplished," Sen. Elizabeth Warren (D., Mass.) said in a statement. The proposals will mean "a banking

system even more prone to devastating crashes and taxpayer bailouts."

Many banks have said they plan to return their excess capital to shareholders, in the form of share buybacks or higher dividends, or to invest in the business. Banks are spending billions of dollars to build up artificial-intelligence capabilities and compete with ever-expanding financial-technology startups.

The freed-up capital is also likely to further fuel an expected deal boom on Wall Street. Investors and analysts have widely expected a surge in bank and financial services consolidation under the Trump administration, owing to a lighter regulatory touch.

The capital changes would help "make it easier to pull deals off" and set the industry up for a "pretty active" second half of the year, said Frank Sorrentino IV, an investment banker at Stephens.

Executives at JPMorgan Chase, Morgan Stanley and Goldman Sachs have said in recent months that they would consider using their excess cash for deals.

Morgan Stanley Co-President Daniel Simkowitz said this week that the firm's excess capital would allow it to take advantage of acquisition opportunities that pop up, as well as fund potential dividend increases and stock buybacks.

Goldman Sachs CEO David Solomon said last month the firm would continue to consider acquisition opportunities with its excess capital, but that "the bar is going to be very high."

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