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September 27, 2010

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
H-232 The Capitol
Washington, D.C. 20515

The Honorable John Boehner
Republican Leader
U.S. House of Representatives
H-204 The Capitol
Washington, D.C. 20515

The Honorable Sander Levin
Chairman
Committee on Ways and Means
U.S. House of Representatives
1102 Longworth House Office
Building
Washington, D.C. 20515

The Honorable Dave Camp
Ranking Member
Committee on Ways and Means
U.S. House of Representatives
1139E Longworth House Office
Building
Washington, D.C. 20515

Dear Speaker Pelosi, Leader Boehner, Chairman Levin, and Rep. Camp:

The American Bankers Association (ABA), representing the nation's $13 trillion banking industry and its over two million employees, ***strongly opposes the proposed $90 billion tax*** on banks.[1] This tax is ostensibly to recoup the losses from the TARP programs – losses which have resulted from ***non-banks***, such as General Motors, Chrysler, and AIG, not banks. There is no question that the banking industry – indeed, the entire country – benefited from the extraordinary actions taken by policy makers in the fall of 2008. Unfortunately, there continues to be considerable confusion about the goals of TARP, including the expansion of it to support non-banks and even non-financial companies. There also has been a failure to recognize the source of TARP losses and the significant returns already provided by the banking industry to taxpayers – ***over $20 billion to date.*** In fact, ***had the TARP been limited to the banking industry, there would be no losses in that program***.

Besides the unfairness of paying for losses outside the banking industry, there are significant unintended consequences of taking such a huge amount of resources out of large banks with the proposed tax. First, the immediate consequence of payments of $90 billion to $117 billion (as has been proposed) is that ***$90 billion to $117 billion cannot be used directly for lending***. But even that does not begin to capture the impact on lending: since $1 of bank capital can support up to $10 in lending, the simple translation is that it could mean ***up to $1 trillion in loans that would not be made over the 10-year period of the tax***.

[1] The proposal would impose a 15 basis point tax on assets less Tier 1 capital and FDIC-assessed deposits (and/or insurance policy reserves as appropriate). The tax, which would be charged each year for at least 10 years until TARP outlays are recovered, would raise $90 billion over 10 years and $117 billion over 12 years, according to the White House's forecast. The proposal applies to firms with more than $50 billion in consolidated assets.

Certainly, it is hard to know precisely what amount of loans would ultimately not be made, but the connection is direct and the impact real. Even if it is only half of this amount, the potential impact is very large. For example, it would mean that ***three million small business loans would not be made over the next 10 years***. Moreover, it means fewer new jobs created. The Congressional Budget Office estimated that the $787 billion stimulus in the American Recovery and Reinvestment Act "increased the number of full-time-equivalent jobs by 1.8 million to 4.1 million compared with what those amounts would have been otherwise." ***Using that same relationship, the loss of $500 billion in loans would translate into between 1.1 million and 2.6 million in lost jobs over the 10-year period.***

The proposed bank tax of $90 billion to $117 billion represents an enormous cost that impacts all bank stakeholders, from employees, to investors, to borrowers. While the actual incidence of the tax on each of these is unknowable, what is perfectly clear is that none of these impacts are good – for employees, stockholders, borrowers, and the economy.

For example, employees of the bank would be affected. Job losses, wage cuts, and restraints on new hires within the banking industry are, of course, completely counter to Congressional efforts to lower the unemployment rate and revive the economy. As Christina Romer, in her farewell address as the head of the Council of Economic Advisers, stated: "The only surefire ways for policymakers to substantially increase aggregate demand in the short run are for the government to spend more and ***tax less***."[2]

Stockholders would be affected by the bank tax as the value of the stock adjusts to reflect this enormous cost and the decline in earnings and growth potential that will result. ***In fact, the day the Administration announced the proposed bank tax, $18 billion in market capitalization was lost by the six largest financial firms.*** Capital moves very quickly as investors seek better relative returns. At a time when capital remains scarce, imposing a tax on banks that drives capital away has serious consequences. Banks are already dealing with the capital consequences of the Dodd-Frank Act, which requires large banks to replace trust-preferred securities with new capital. The imposition of the bank tax combined with the removal of trust-preferred securities will force these banks to raise over ***$200 billion in capital*** just to maintain current Tier 1 capital ratios. Let me reiterate: every loan made by a bank is backed by capital; if capital flows out of banks, it means fewer loans and fewer jobs.

Borrowers and other customers also end up paying some of the cost of the tax. With capital moving to other industries and the reality of a large tax payment, some borrowers may not have access to credit or will have access to credit on terms that would not be as favorable as they would be in the absence of the tax. Small businesses, which have fewer alternatives for funding than larger businesses, would most likely feel the impact of this bank tax more keenly.

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[2] Christina Romer, *Not My Father's Recession: The Extraordinary Challenges and Policy Responses of the First Twenty Months of the Obama Administration*, National Press Club, September 1, 2010. Emphasis added.

The proposed bank tax must also be considered in a larger, global context. First, it is unclear what action actually will be taken by other countries. While there is considerable discussion on the topic, there is no consensus on what, if anything, needs to be done (let alone whether it can realistically be implemented consistently across many countries). Second, if there are inconsistencies, which seem inevitable, it will mean that business will flow to those firms that are not subject to the tax and whose prices are not constrained by it.

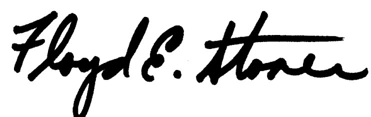
Some have said that the burden of this tax falls only on the largest banks. While the bank tax has direct, and severe, consequences for large institutions, it has a broader impact and effects on the smaller banks as well. Because the proposed tax covers non-deposit liabilities, it will affect how large banks fund themselves. This inevitably will alter the economics of ***all*** bank-funding markets, including the deposit market, the federal funds market, the pricing of Federal Home Loan Bank advances, and the short-term Repo (repurchase) market – which will raise the cost of funding loans for community banks. Thus, the tax burden will not be limited to the largest banks, but will be felt by smaller banks too. Ultimately, it is the owners and borrowers, particularly small business borrowers who are often financed by local community banks, that will end up paying for the tax.

The ABA believes that the bank tax is ill-conceived regardless of the economic cycle. It would be, however, particularly negative for recovery to assess such a huge tax at this time when the credit availability is so important to future economic growth and jobs are badly needed in this economy. Congress recognized the precariousness of making any changes now and understood that the ultimate losses would not be known for many years. This is the reason why the law requires a report on TARP losses in ***2013***, so that there would be a clearer picture of the magnitude and source of losses.

In fact, the cost estimate has declined dramatically over the past year. The Congressional Budget Office has revised its cost estimate down from $356 billion in March 2009, to $109 billion in December 2009, to $66 billion in August 2010. These losses will be further reduced as the Treasury continues selling Citigroup stock and GM considers an IPO to repay funds that were initially expected to remain unpaid. Thus, any recoupment plan is premature and inappropriate at this time. Given the declining cost figures, implementing any tax now would likely ***lead to a greater withdrawal of resources in a shorter period of time than is appropriate or prudent***, particularly given the anemic state of the economy.

The American Bankers Association is adamantly opposed to the bank tax and gravely concerned that the unintended consequences will harm an already weak economy. The tax would burden consumers and businesses with higher borrowing costs and less credit availability, while pushing financial activity into unregulated sectors and to those foreign banks that are not required to pay any tax.

Sincerely,



Floyd E. Stoner