



October 19, 2009

The Honorable Christopher J. Dodd
Chairman
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, DC 20510

The Honorable Richard C. Shelby
Ranking Republican Member
Committee on Banking, Housing & Urban Affairs
United States Senate
Washington, DC 20510

Dear Chairman Dodd and Ranking Republican Member Shelby:

We are writing to express very serious opposition to proposals to consolidate the bank regulatory functions of the Federal Reserve, Federal Deposit Insurance Corporation, Office of the Comptroller of the Currency, and Office of Thrift Supervision into a single entity.

The current system of bank supervision, while complex, provides a healthy check against any one regulator neglecting its duties, overlooking important issues, focusing on one part of the industry to the detriment of others, growing overly bureaucratic and ineffective, or otherwise falling short in meeting its full set of responsibilities. One recent example – the FDIC’s insistence on retaining a leverage capital ratio when other regulators were inclined to eliminate it as part of Basel II – illustrates well the benefits of having variety in regulatory perspective. A single regulator is only good when it is right; when wrong, the outcome could be catastrophic. It is noteworthy that Great Britain adopted a single regulator model, and the problems in its banking sector were deeper than in the U.S.

Regulatory consolidation would inevitably undermine the dual banking system, which has served our nation well for nearly 150 years. Experience in other countries shows that a new monolithic federal regulator, responsible for the supervision of all of the nation’s depository institutions, could be expected to focus first and foremost on the largest institutions. With regulatory power concentrated in Washington, it is natural that bank regulation will favor programs supervised from Washington. Consideration of state-chartered institutions over time would take a back seat. A state-chartered bank would find that regulatory burdens disadvantage state banks and conclude that it is more efficient to operate as a national bank. Having separate bureaus for state and federal charters would not solve this fundamental problem.

Our diverse banking system has served our country well. Unlike any other country, we have a broad range of small, mid-size, and large banks that meet different market needs. We believe

strongly that this diverse system would be greatly undermined by the creation of one, large regulatory agency.

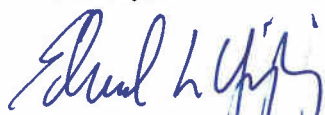
Moreover, regulatory consolidation would eliminate the benefits gained by the Federal Deposit Insurance Corporation and the Federal Reserve Board from their knowledge of the banking industry. As these agencies have stated repeatedly,¹ their ability to insure deposits and conduct monetary policy (respectively) is enhanced by their deep understanding of the banking markets obtained from hands-on bank supervision.

One argument that is used to support this regulatory consolidation is that charter switching was a major contributor to the financial crisis. This argument, we submit, is simply not supported by the facts. Fannie Mae, Freddie Mac, Lehman Brothers, and AIG did not switch charters. Subprime lending, the runs on money market mutual funds, problems with derivatives and rating agencies, and excess leverage in Wall Street firms had nothing to do with charter choice. With respect to the two institutions often cited as having switched charters – Countrywide and Colonial – their switch of charter had no material impact on their problems. If the Congress is concerned about problem institutions switching charters in order to avoid strong regulation, that should be addressed directly and simply through a provision prohibiting such switching for institutions under special supervisory scrutiny, and, in fact, the regulators have already adopted rules designed to achieve that goal.

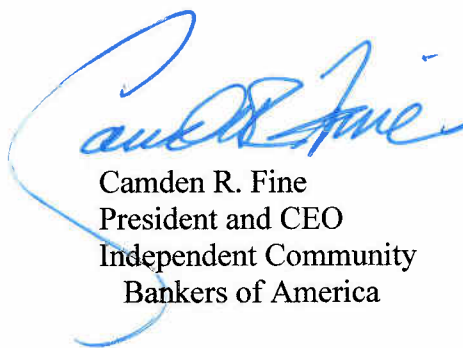
Changes in our regulatory system are needed. Consumers, banks, and the country at large would benefit from better systemic supervision, and having input from several regulators will increase the chances that we can overcome the danger of systemic supervision suffering from blind spots. We also need to put in place a system capable of unwinding any financial institution regardless of size or complexity, and drawing upon the specialized expertise of the existing banking regulators will play an essential role in that effort. None of these changes requires or would benefit from the consolidation of all the regulatory functions of the agencies into one.

Thank you for considering our views.

Sincerely,



Edward L. Yingling
President and CEO
American Bankers Association



Camden R. Fine
President and CEO
Independent Community
Bankers of America

¹ See, e.g., Statement of Sheila C. Bair Chairman, Federal Deposit Insurance Corporation, on Strengthening and Streamlining Prudential Bank Supervision, before the U.S. Senate Committee on Banking, Housing and Urban Affairs, August 4, 2009 (“Senate Hearing”); Daniel Tarullo, Governor, Board of Governors of the Federal Reserve System, in response to questions of Senator Dodd at the Senate Hearing.