

October 5, 2011

The Honorable Spencer Bachus
Chairman, Committee on
Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

The Honorable Barney Frank
Ranking Member, Committee on
Financial Services
U.S. House of Representatives
2129 Rayburn House Office Building
Washington, DC 20515

Dear Chairman Bachus and Ranking Member Frank:

Thank you for your careful oversight of the implementation of the Dodd-Frank Act. Little in the Act is more important than an effective program for improved communication among the financial regulatory agencies and better coordination of their efforts to identify systemically significant developments and risks. For that reason, the American Bankers Association (ABA)¹ was an early and consistent advocate for the creation of a federal coordinating body to consider systemic issues and particularly to identify systemic problems as they arose. That was the role given under the Dodd-Frank Act to the Financial Stability Oversight Council (FSOC).

ABA supports the broad mandate given to the FSOC to look for and address systemic issues. That broad mandate should be exercised to look at systemic risks that have their root in government policy as well as to consider systemic risks that are developing in the marketplace. It is undeniable that the good intentions of the Dodd-Frank Act are being swallowed up in a growing implementation nightmare, as the many regulatory agencies have completed only a third of the 187 new rules and regulations that the Act required them to complete by the first of October, and yet there are 210 more rules and regulations to come. The breadth, depth, and complexity of the new rules, and their aggregate effect as they pile up on top of each other, are making it impossible for banks of any size to plan for the future, as merely coping becomes a daily challenge. The FSOC should certainly have on its agenda consideration of whether demanding that a banking industry with already historically high capital ratios should be required to pull \$200 billion more out of the economy to push those ratios even higher, and whether that amount of financial contraction is appropriate for a weakening economy.

We note that in its early months the FSOC appears to be devoting significant attention to the potential systemic consequences of the failure of a single financial institution. It is clearly important that we have a program in place that provides for the orderly resolution of any failing financial firm coupled with the recognized will to use that authority, acknowledged by the financial markets. Without that, too-big-to-fail will be considered alive and well, with all of the market distortions and miscalculation of risk that come with it.

What has not been as apparent is whether the FSOC has been devoting as much or even more attention to what experience teaches us are more likely sources of systemic risk. These risks may

¹ The American Bankers Association represents banks for all sizes and charters and is the voice for the nation's \$13 trillion banking industry and its 2 million employees. Learn more at www.aba.com.

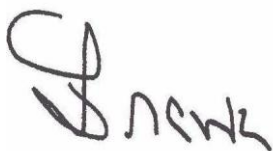
be manifesting themselves at the present time. ABA believes that the continuation of a seriously suppressed housing and mortgage market is a source of systemic risk. We cannot envision a healthy and sustainable economic recovery while the housing and mortgage markets remain so depressed. Even more gravely, it is clear that the growing fiscal imbalance is a risk to the financial system as well as to the economy overall, as demonstrated by the stress of the Greek fiscal crisis on the European financial system and economy. The aforementioned current regulatory crisis caused by the unprecedented – and hitherto unimagined – scale and pace of regulatory demands placed by the multitude of new mandates in the Dodd-Frank Act on supervisory agencies, the financial firms that they supervise, and the individual and business customers whom they in turn serve is affecting the overall economy.

ABA urges the FSOC to focus on these very real and present sources of systemic risk. We see numerous regulatory proposals to make mortgages more expensive and out of reach for creditworthy borrowers. The fiscal imbalances continue to build up pressures that eventually, if unresolved, can manifest themselves in significant increases in inflation and interest rates, both of which harm banks and our customers. We see a steady drumbeat for ever more increases in bank regulatory capital, despite the fact that bank regulatory capital ratios are at historically high levels, and without regard for the economic contraction caused by raising capital requirements to excessive degrees.

ABA encourages the Committee to draw the attention of the FSOC to the real and growing systemic problems that are developing today. We also believe that the Treasury Secretary, as Chairman of the FSOC, is the right person to take the lead in managing the currently inadequately coordinated implementation of the Dodd-Frank Act, recognizing that a rethinking of some of the regulatory overload is called for in order to lift the cloud of excessive regulation casting its shadow over our economic recovery.²

Thank you for conducting this timely hearing and your commitment to a strong and prosperous banking system that can provide the lending and financial services that families and businesses need to move the economy forward.

Sincerely,

A handwritten signature in black ink, appearing to read "Frank Keating". The signature is stylized and written in a cursive-like font.

Frank Keating

Cc: Members of the Committee on Financial Services

² Attached is a copy of a letter sent by ABA to Treasury Secretary Geithner on March 10, 2011, urging him to manage the growing problem of Dodd-Frank Act implementation.