CENTER FOR CAPITAL MARKETS
COMPETITIVENESS

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The Honorable Jerome Powell
Chairman
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551

The Honorable Joseph Otting
Comptroller of the Currency
Office of the Comptroller of the Currency
400 7th Street, SW
Washington, D.C. 20219

The Honorable Jelena McWilliams
Chair
Federal Deposit Insurance Corporation
550 17th Street, NW
Washington, D.C. 20552

Dear Chairman Powell, Comptroller Otting, and Chair McWilliams,

Properly tailored regulations for banks of all sizes are fundamental to financial stability and economic growth. We appreciate your ongoing efforts to refine financial regulations, as it is critical that regulations take into account the business model and risk profile of individual firms. The proposals recently announced by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation ("Agencies") to tailor regulations for domestic regional banks are a step in the right direction, but your work should not stop there to ensure appropriately calibrated standards that will promote deep and liquid markets, lending to businesses, and economic growth.

The U.S. Chamber of Commerce ("Chamber") recently commissioned a study that finds small business lending by banks has declined due to the strict capital and liquidity requirements put in place in response to the 2008 financial crisis. Policymakers should be concerned that small business lending by financial institutions dropped by nearly 50 percent – loans less than $1 million dropped from 2.5 percent of gross domestic product in 2001 to 1.7 percent in 2017, and such loans make up a smaller portion of total bank assets, dropping from 4.0 percent in 2001 to 2.1 percent in 2016.[1] This concerning trend must be studied as you reconsider our regulatory framework.

The Chamber encourages you to swiftly implement the tailoring of regulations called for by the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA). Our research has shown regulatory relief for financial institutions would help reverse the decade-long decline in small business lending.[2] The legislation calls for immediate relief from enhanced prudential standards under Section 165 of the Dodd-Frank Act for banking entities with $50-100 billion in assets. It also automatically grants relief within 18 months for banking entities with $100-250 billion in assets, and encourages tailoring of regulations for banks above this threshold.

While raising the asset threshold for automatic enhanced prudential standards is an important change, the Chamber continues to strongly support tailored regulations—sophisticated rules that are properly calibrated to the risk profile of an activity or institution.[3] Regulators should avoid relying on arbitrary asset thresholds where possible and should index such thresholds for inflation to avoid creating regulatory cliffs.

In general, the Chamber appreciates the proposals issued by the Agencies on October 31, 2018. Importantly, the proposals acknowledge the need for immediate regulatory relief for certain banking entities and strongly suggest a willingness to tailor regulations beyond the $250 billion asset threshold. We look forward to providing robust comments in response to the proposals once we determine their interaction with the existing capital framework and other regulatory proposals that may be under

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[1] Angel, J. (fall 2018). Impact of Bank Regulation on Business Lending. U.S. Chamber of Commerce Center for Capital Markets Competitiveness. Retrieved from https://www.centerforcapitalmarkets.com/wp-content/uploads/2018/09/CCMC_RestoringSmallbizLendingReport_9.10.18-1.pdf
[2] Letter available at https://www.centerforcapitalmarkets.com/wp-content/uploads/2018/05/180521_KV_S2155_EconomicGrowthRegulatoryReliefAndConsumerProtection_House.pdf
[3] U.S. Chamber of Commerce Center for Capital Markets Competiveness. Financing Main Street Agenda: Unlocking Capital for Job Creators (Fall 2017). Report available at https://www.uschamber.com/sites/default/files/023348_ccmc_mainst._lendingreformagendafinal.pdf

consideration. Importantly, the Agencies should ensure these proposals provide meaningful relief for all covered firms.

The Chamber is disappointed, however, that the tailoring of regulation for foreign banks was not addressed in the proposals. Foreign banks provide significant contributions to the U.S. economy through direct investment, job creation, and their unique ability to provide financial services to global businesses. Foreign banks with significant U.S. operations are required to establish intermediate holding companies (IHCs) that facilitate consistent supervision and regulation by financial regulators akin to that of BHCs of similar scope and risk profile.

Foreign banks should receive commensurate regulatory treatment to U.S. bank holding companies (BHCs); anything short of this could put American financial markets at a comparative disadvantage and risk retaliatory actions by foreign regulators against U.S. banks operating abroad.[4] Careful examination and tailoring is needed to ensure that our financial markets remain diverse and resilient, ensuring access to credit and financial services for businesses that provide jobs and fuel U.S. economic growth.

Finally, the Chamber recommends reconsideration of the calculation of the capital surcharge for large U.S. financial institutions. As the Chamber warned in a letter to the Federal Reserve Board in 2015, the implementation of the so-called "GSIB surcharge" by federal banking regulators puts U.S. financial institutions at a competitive disadvantage and inhibits capital formation.[5] The surcharge further inhibits lending to small businesses by these banking entities. The federal banking regulators should strongly weigh the costs to our economy imposed by this additional capital requirement.

We are ready to work with you on these important issues.

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[4] See letter on Enhanced Prudential Standards and Early Remediation Requirements for Foreign Banking Organizations and Foreign Nonbank Financial Companies; FR Doc 1438 and RIN-7100-AD-86, U.S. Chamber of Commerce, April 30, 2013, available at https://centerforcap.wpengine.com/wp-content/uploads/2013/08/2013-4.30-CCMC_FBO_Comment-Letter.pdf

[5] Letter available at https://centerforcap.wpengine.com/wp-content/uploads/2015/04/2015-4.1-GSIB-Surcharge-Comment-Letter.pdf

Sincerely,

Tom Quaadman

cc: Members of the U.S. Senate Committee on Banking, Housing, and Urban Affairs
Members of the U.S. House Committee on Financial Services