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President and CEO

February 12, 2015

The Honorable Michael E. Capuano
U.S. House of Representatives
Washington, D. C. 20515

Dear Representative Capuano:

On behalf of the more than 6,500 community banks represented by ICBA, I write to express our support for the Subsidy Reserve Act (H.R. 888), which would address the insidious problem of subsidies enjoyed by “too-big-to-fail” (TBTF) banks and financial firms. Thank you for introducing H.R. 888.

The existence of a subsidy enjoyed by TBTF banks and firms has now been confirmed by numerous reputable and independent studies, including studies done by economists at the International Monetary Fund, the Federal Reserve Bank of New York, and the Government Accountability Office. The subsidy comes in the form of lower cost funding provided by equity and debt investors based on the expectation that the government would rescue a TBTF firm rather than allow it to fail. The subsidy has a pervasive and distortionary impact on financial markets, fueling undue risk taking and consolidation and inhibiting free competition that would benefit consumers and commercial borrowers.

H.R. 888 represents a novel approach to this problem: Requiring TBTF banks and firms to establish and maintain a reserve to be funded annually in the amount of their subsidy. ICBA supports any and all serious and practical approaches to the subsidy problem, especially approaches that do not require complex rules and regulations. As such an approach, H.R. 888 merits consideration by Congress.

Thank you again for your attention to the problem of the TBTF subsidy and your contribution to the debate over viable solutions.

Sincerely,

/s/

Camden R. Fine
President & CEO

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