

March 3, 2010

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, the undersigned associations, write to you to express our support for the important role that the Federal Reserve System plays, and should continue to play, in financial supervision. We understand that the primary responsibility for the Federal Reserve is monetary policy. However, we do not believe the monetary policy role should be separated from financial supervision. We believe that these two responsibilities are essential duties of a central bank.

For example, successful conduct of monetary policy requires a deep program of research and analysis of financial and economic conditions. The Federal Reserve has developed these resources over the course of decades. Fortunately, these are the very resources and perspectives that are important to effective bank supervision, particularly for the supervision of large and complex financial institutions whose diversity of operations and significant impact on the economy demand a program of well-informed, consolidated supervision.

A second example is the reciprocal of the previous one. The hands on supervisory experience of the Federal Reserve conducted through its 12 regional Federal Reserve Banks directly informs its monetary policy analysis, keeping it closely connected with financial and economic conditions as they develop throughout the country. This experience that the Federal Reserve gains through its own supervisory operations supports the Federal Reserve's conduct of monetary policy, keeping it balanced and responsive to the needs of the whole country.

It is important to remember that the Federal Reserve conducts this important regional outreach by means of its supervision of Federal Reserve member banks of all sizes: large, small, and in between. That is why we support the continuation of the Federal Reserve's supervision of state chartered banks that are members of the Federal Reserve System. It would be a mistake to limit the Federal Reserve to supervision of only large, complex institutions headquartered in major financial centers. The Federal Reserve needs a broader regulatory focus to ensure that for both its central bank and regulatory functions it has a clear view of banks of all sizes, from all regions, and from differing types of communities.

In addition, in its basic role as a central bank the Federal Reserve, as with all central banks, acts as lender of last resort to stem liquidity crises that can arise from or feed financial panic. This is

not support to be used to prop up failing institutions but rather a means of helping solvent institutions cope with the danger of bank runs or other exceptional liquidity demands. That is why the Federal Reserve requires strong collateral for borrowing at the discount window. The institutional information and insights obtained by the Federal Reserve through its supervisory activities are essential to the proper conduct of its lender of last resort responsibilities, to understand the needs and activities of the financial institutions that might call upon Federal Reserve facilities, such as the discount window. Again, this experience must come through supervision of banks of all sizes and in all regions.

When the Federal Reserve System was created, there was great concern that a central bank would consolidate monetary policy and bank supervision in New York or Washington, the same worry that ultimately brought an end to the First and Second Banks of the United States. To address that concern, the Federal Reserve was established as a system with 12 regional banks. Monetary policy today is determined by the Federal Open Market Committee, made up of the Federal Reserve's Board of Governors and the presidents of 5 of the regional Federal Reserve Banks (who serve for a one-year term on a rotating basis). Similarly, bank supervision is conducted by all 12 of the Federal Reserve Banks. This structure is a strength of the Federal Reserve and works to ensure that both monetary policy and bank supervision stay in touch with the conditions throughout the country, affecting financial institutions of all types, sizes, and geographies.

We and our members therefore urge that as you develop legislation to improve our financial regulatory system you include in that program a Federal Reserve System that is focused on its mutually reinforcing responsibilities for independent monetary policy and financial supervision. While improvements are undoubtedly called for, changes that undermine either the independence of monetary policy or the Federal Reserve's supervision of financial institutions will lead to a weaker financial regulatory system.

Respectfully,

Edward L. Yingling
President and CEO
American Bankers Association

Richard Hunt
President
Consumer Bankers Association

Robert S. Nichols
President
The Financial Services Forum

Steve Bartlett
President and CEO
The Financial Services Roundtable

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

T. Timothy Ryan, Jr.
President and CEO
Securities Industry and
Financial Markets Association

cc: Members of the Senate Banking Committee