**For Immediate Release**
**April 21, 2010**

# AFR Urges Senators to Support Brown/Kaufman SAFE Banking Act

Group Releases Letter Sent to the Senate Today

Americans for Financial Reform, a coalition of over 250 consumer, employee, investor, community and civil rights groups, released the following letter today urging Senators to support Senators Brown (OH) and Kaufman's (DE) SAFE Banking Act.

**Full text of the letter below:**

United States Senate
Washington, DC 20510

Dear Senator,

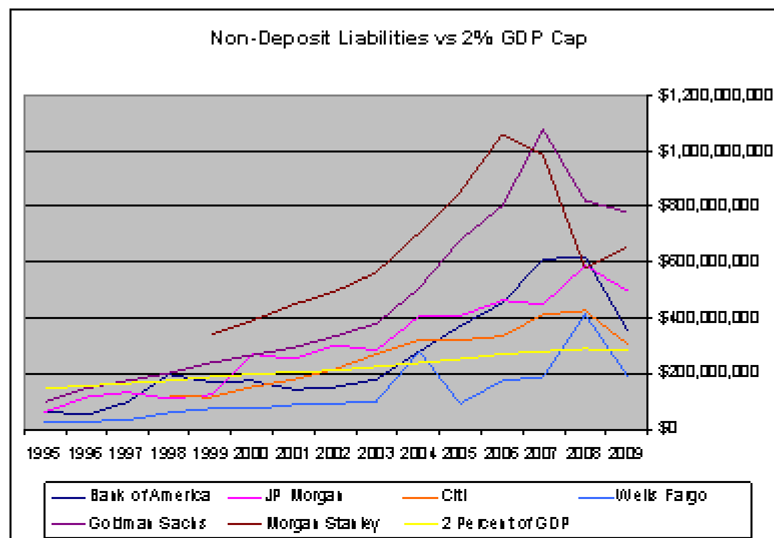
The over 250 consumer, employee, investor, community and civil rights groups who are members of the Americans for Financial Reform (AFR) agree with former Federal Reserve chairman Alan Greenspan's warning: "If they're too big to fail, they're too big." That is why we urge you to support Sens. Sherrod Brown and Ted Kaufman's bill, the SAFE Banking Act. It builds on the financial reform bill by adding a common-sense proposal to require America's largest banks to limit their size and debt levels.

**Current Policies Have Made Risky Banks "Too Big to Fail".** The 2008 financial crisis was met with the most extreme and sustained government intervention in the market that we have seen since the New Deal era. Policymakers on both sides of the aisle have recognized that the dramatic actions by the U.S. government to prop up the financial system may have succeeded in pulling us back from the abyss, but introduced a whole new era of moral hazard. Many U.S. financial services institutions have been deemed "too big to fail" (TBTF) and have been granted the implicit guarantee of the U.S. government for the foreseeable future. For the first time, this federal backstop has been granted to investment banks engaged in speculative activities, not just traditional commercial banks.

**"Too Big to Fail" Hurts Community Banks and Small Businesses.** The SAFE Banking Act will restore an even playing field for community banks, which account for 54 percent of all small business lending.[1] The current TBTF guarantee distorts the market, privileging the 18 largest banks with a funding advantage over smaller banks that is valued at $34 billion annually.[2] This hidden subsidy to large, Wall Street banks is particularly indefensible because these banks have sharply curtailed their lending to Main Street since – and despite – the billions in taxpayer bailouts. For example, the three largest banks slashed their SBA lending by 86% from 2008-2009, while increasing their Wall Street trading by 23%.[3]

**The SAFE Banking Act Builds on Principles in the Financial Reform Bill.** The Wall Street Reform Act (S. 3217) addresses the TBTF problem by providing a mechanism for liquidating failing bank and non-bank financial companies, and by directing the Federal Reserve to issue tougher standards (including leverage ratios) for systemically dangerous financial companies, hopefully making it more expensive to be TBTF. However, we believe that the SAFE Banking Act will provide greater market certainty than will the regulatory discretion afforded in the bill. Limiting bank size will also make the bill's orderly liquidation authority more effective.

**Size and Risky Funding Sources have Increased with Deregulation.** The table below graphically illustrates the sharp—and unsustainable—increase:




Source: CEPR 2010

Since Congress passed the Riegle-Neal Interstate Banking Act of 1994, the largest banks have swelled to mammoth proportions. In 1994, the six largest banks had assets equal to 17 percent of Gross Domestic Product (GDP). They now have assets estimated to be over 60 percent of GDP.[4] In addition, after Congress allowed for the combination of commercial and investment banking in 1999 with the Gramm-Leach-Bliley Act, a particularly volatile source of funding – non-deposit liabilities – skyrocketed. Traditionally, banks relied on deposits (safe, relatively illiquid) to fund

their activities; today, short-term wholesale funding such as repurchase ("repo") agreements and commercial paper predominate. The combination of increased risk and increased size relative to our nation's GDP makes "Too Big to Fail" institutions systemically dangerous.

**This is why Americans for Financial Reform strongly supports the proposal by Senator Sherrod Brown and Senator Ted Kaufman to limit the size of TBTF institutions.** These size limits would give the largest banks three years to transform themselves into leaner, more sustainable institutions – while maximizing shareholder value and without sacrificing any of the economies of scale. Importantly, a hard cap will also *prevent* new financial services firms from growing too large in the future.

**The Brown-Kaufman bill would:**

- **Impose a strict 10 percent cap** on any bank holding or thrift holding company's share of the total amount of deposits of insured depository institutions in the United States. The Riegle-Neal Banking Act of 1994 established this type of cap for mergers and acquisitions. This bill would extend the cap to organic growth as well. At the moment, this would affect only three of the largest institutions, which exceeded the cap on mergers and acquisitions at the height of the crisis.

- **Impose a limit on the non-deposit liabilities** (including off-balance-sheet ones) of a bank holding company or thrift holding company of 2 percent of GDP (about $280 billion.) Currently Bank of America holds non-deposit liabilities in excess of 7 percent of GDP.[5] This would only affect the 5 largest bank holding companies. 8,000 other U.S. banks would be unaffected, except to benefit from a less distorted marketplace.

- **Impose a limit on the overall liabilities** (including off-balance-sheet ones) of any non-bank financial institution regulated by the Federal Reserve – i.e. one that the proposed Financial Stability Oversight Council deems a risk to the financial system –of 3 percent of GDP. This would apply to investment firms and other entities whose enormous size could also pose a threat to the financial system.

- **Institute a statutory leverage ratio.** Members on both sides of the aisle have pointed to the importance of increasing capital requirements and limiting leverage. Unfortunately the Senate bill kicks the can indefinitely down the road to future regulators and international agreements, giving Congress no say over these decisions. The Brown-Kaufman amendment codifies a six percent (or $16.67 to $1) maximum leverage-to-capital ratio for bank holding companies and selected nonbank financial institutions. The current leverage ratio is just 4 percent (or $25 to $1).

For the above reasons we strongly support this proposal and hope that you will consider these common-sense solutions to the problem of "Too Big to Fail." For more information, please contact Heather McGhee at hmcghee@demos.org or (202) 559-1543.

Sincerely,

A New Way Forward
AFL-CIO
Americans for Financial Reform
Bold Nebraska
California Reinvestment Coalition
Campaign for America's Future
Center for Media and Democracy
Consumer Watchdog
Consumers Union
Demos
Jobs with Justice
National People's Action
Neighborhood Economic Development Advocacy Project (NEDAP-NY)
Public Citizen
Service Employees International Union (SEIU)
U.S. Public Interest Research Group (PIRG)
Union Plus

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[1] Stacy Mitchell, "Banks and Small Business Lending," New Rules Project, Feb. 2010, available at http://www.newrules.org/banking/news/banks-and-small-business-lending

[2] This subsidy was responsible for as much as 46 percent of Bank of America's 2009 profits. Dean Baker and Travis McArthur, "The Value of the 'Too Big to Fail' Bank Subsidy," CEPR, Sept. 2009, available at: http://www.cepr.net/documents/publications/too-big-to-fail-2009-09.pdf

[3] Small Business Association 7(a) Reporting; FDIC Quarterly Banking Profiles, 2008-2009.

[4] Simon Johnson, BaselineScenario.com

[5] Bank of America 2010 Q1 SEC filings.