

The Systemic Risk Council

May 20, 2015

Senator David Vitter
Hart Senate Office Building
SH-516
Washington, DC 20510-1206

Dear Senator Vitter;

We are writing to offer our vigorous support for your proposal to establish a 10 percent minimum, non-risk-weighted capital requirement for banking organizations with assets greater than 500 billion dollars.

The Systemic Risk Council has long supported stronger, simpler capital requirements for large, complex institutions, and we are gratified that you are moving forward with a proposal to do just that. There is widespread consensus that the use of excessive leverage by so-called "systemic" institutions was a key driver of the financial crisis and ensuing need for taxpayer bailouts. Though regulators have moved to strengthen bank leverage and risk-based capital standards since the crisis, the increases have been incremental and large financial institutions remain overly reliant on debt to fund themselves. For instance, the leverage ratio approved by the Federal Reserve for large bank holding companies still allows 95 dollars of debt for every 5 dollars of common equity.

By raising the minimum common equity requirement to 10 percent, and capturing risks created through off-balance sheet activity, your amendment would provide for a real and meaningful reduction in the use of leverage by large banks, dramatically increasing their ability to absorb unexpected loss during a crisis and thus dramatically decreasing the risk of destabilizing failures. Thicker cushions of common equity would also better position these banks to keep lending through the cycle, mitigating the impact of downturns on credit availability.

We applaud efforts regulators have taken to date to strengthen capital requirements. However, in the face of intense industry lobbying, the regulatory response to the problem of excessive leverage has fallen short. Senate Banking Committee approval of your amendment would send an important signal to regulators as well as the public at large that our elected leaders support meaningful reform of our financial system and are willing to make tough decisions to ensure that the 2008 debacle does not repeat itself.

Again, we strongly support your proposal and stand ready to assist you in any way we can.

Sincerely,

A handwritten signature in blue ink that reads "Sheila Bair".

Sheila Bair

cc: Senate Banking Committee Members