

July 16, 2015

The Honorable James M. Inhofe
Chairman
Senate Environment and Public
Works Committee
410 Senate Dirksen Committee
Washington, D.C. 20510

The Honorable Barbara Boxer
Ranking Member
Senate Environment and Public
Works Committee
456 Senate Dirksen Committee
Washington, D.C. 20510

Dear Chairman Inhofe and Ranking Member Boxer:

The undersigned banking trade associations, representing financial institutions of all sizes, are writing to express our strong opposition to a proposal that is being considered to offset funding to reauthorize the Highway Trust Fund.

In fact, this proposal would, for the first time since the creation of the Federal Reserve and without any analysis or study of any kind, reduce the dividend that the Federal Reserve pays on the stock that banks are required to hold as members of the Federal Reserve System. The dividend reflects the unique structure and constraints of holding Federal Reserve Bank stock. Ownership of Federal Reserve Bank stock is not an investment choice but rather a legal mandate, with Federal law dictating the precise amount of stock that must be held over time. Federal law requires nationally chartered banks to be members of the Federal Reserve, and requires those members to pay an amount equal to 6% of their capital to their regional Federal Reserve Bank. Unlike nearly any one type of bank asset, Federal law prohibits each bank from selling, transferring or even using as collateral its Federal Reserve Bank shares, making them wholly illiquid. This is money that otherwise would be used by banks for lending, and to provide other services to customers.

To quote Federal Reserve Chair Janet Yellen's testimony today before the Senate Banking Committee: "I would say that this is a change to the law that could conceivably have unintended consequences and I think it deserves serious thought and analysis."

This proposed policy change undermines a key agreement that has underpinned the United States banking system for 100 years. Dramatically reducing the rate to pay for a completely unrelated congressional priority will weaken the financial stability of banking institutions and reduce liquidity available in the financial system.

We respectfully urge that you reject this proposal.

Sincerely,

American Bankers Association
Financial Services Forum
Financial Services Roundtable
Independent Community Bankers of America
The Clearing House Association

cc: The Honorable Mitch McConnell, U.S. Senate Majority Leader;
The Honorable Harry Reid, U.S. Senate Democratic Leader;

The Honorable Richard Shelby, Chairman, Senate Committee on Banking, Housing and Urban Affairs;

The Honorable Sherrod Brown, Ranking Member, Senate Committee on Banking, Housing and Urban Affairs