Testimony of Steve Bartlett
Before the Committee on Senate Finance
"The President's Proposed Fee on Financial Institutions Regarding TARP: Part 2."
May 4, 2010

Chairman Baucus, Ranking Member Grassley, and members of the Finance Committee, I am Steve Bartlett, and I am the President and Chief Executive Officer of The Financial Services Roundtable. Thank you for the invitation to testify on the Administration's proposed "Financial Crisis Responsibility Fee."

The members of the Financial Services Roundtable are committed to repaying our TARP obligations, and we are particularly encouraged by the following statement made by the Treasury Department on April 2nd:

> *Treasury currently estimates that its programs aimed at stabilizing the banking system will earn a profit thanks to dividends, interest, early repayments, and the sale of warrants. Total bank investments of $245 billion in FY2009 that were initially projected to cost $76 billion are now projected to bring a profit. Taxpayers have already received $14 billion through just interest and dividends and that number could be considerably higher by the end of this year.*

Treasury further estimates that the return to taxpayers on TARP investments in banks is nine percent. These are amazing developments, and they hardly seemed possible a year ago. However, other programs under the TARP may result in losses, and it is appropriate to begin thinking about ways to deal with those costs. The Administration's approach, however, raises several significant questions.

First, we have questions about timing. The Emergency Economic Stimulus Act of 2008, which created the TARP program, requires the Administration to submit a report to Congress in 2013 calculating net TARP gains or losses, and then, in the event of losses, to submit a legislative proposal to recover such amounts. In writing EESA, Congress realized that it would be years before we would know the true cost of the TARP program. And today, we simply do not have a clear picture. Projected TARP losses have been declining rapidly – when the Administration proposed the fee in January, it estimated that TARP losses would be $117 billion, and it proposed the level of the tax accordingly. That amount was based in part on a projection that TARP losses related to investments in AIG would total nearly $50 billion; today, Treasury says those losses are likely to be "substantially lower." Estimated losses in other TARP programs are similarly declining. And as the economy recovers, more banks pay back TARP obligations, and warrants are sold, taxpayer gains from bank investments will grow. Not only does the Administration proposed to begin imposing the tax now, in 2010, it does not propose any adjustment to the tax to reflect continuing improvement in TARP losses.

Second, we have questions about how this tax interacts with other proposals, domestic and international, to impose fees and taxes on the financial industry. The International Monetary Fund is recommending that G-20 nations jointly impose new sector-wide taxes on financial firms to help pay for the cost of future industry rescue efforts. One tax the IMF is recommending would be imposed on non-deposit liabilities, precisely the same mechanism proposed by the Administration in its Financial Crisis Responsibility Fee. It is unclear whether the pending financial services regulatory reform legislation will include proposals to impose new fees on the financial firms to create a resolution fund, as both proposals approved by the Senate Banking Committee and the House of Representatives have done. It will be important for U.S. policymakers to ensure that our firms are not subject to multiple levels of overlapping taxes. Additionally, it is far from certain that there is international consensus for imposing a new tax on the financial industry; while countries may agree that taxpayers should not be exposed to the costs of a future crisis,many countries disagree such a tax is necessary. Policymakers will need to consider the potential impact on the international competitiveness of U.S. firms in the event foreign companies are not subjected to similar requirements.

Third, we do not have a clear understanding of the intended purpose of the tax. The Administration has stated that the proposed Financial Crisis Responsibility Fee is intended not only to recoup TARP costs, but also to act as a "deterrent against excessive leverage" in the financial industry. We do not believe the Tax Code is the best tool for addressing concerns about financial industry risk. We would submit that marketplace and current regulatory efforts already are de-leveraging industry balance sheets, and that the pending financial services regulatory reform legislation is the better forum to address concerns about systemic financial risk. Further, international regulatory bodies are actively discussing new capital, liquidity, and risk management standards that may have dramatic effects. These are complex issues, and there is every possibility that a hastily conceived tax may have unintended marketplace consequences. Further, the Administration's proposal must not morph into a permanent tax or revenue stream for the federal government. It must be temporary and limited to recovering TARP losses that are attributable to the financial industry.

Fourth, we question why the financial industry should be asked to pay for TARP losses attributable to other industries. We certainly would not expect the other industries to be asked to pay for any TARP losses attributable to the financial industry. And we hope that TARP losses from other industries will diminish as their industry, like ours, continues to recover.

Fifth, we have concerns that the proposed recoupment fee will reduce incentives to manage TARP investments carefully. We are concerned that TARP dollars might be invested, or simply spent, from this point forward without proper regard to costs or efficiencies, since the financial industry in the end would be on the hook to cover losses. The financial industry should not serve as a blank check for new TARP spending.

Finally, and perhaps most importantly, we have questions about the economic impact of the proposed fee. The fee would reduce the total supply of credit in the financial system. The fee is designed to raise $90 billion over 10 years, which means a $90 billion reduction in regulatory capital. Assuming a 10% leverage ratio, this loss of capital would reduce financial industry lending capacity by $900 billion, a huge number. The Congressional Budget Office and the Joint Committee on Taxation also have concluded that customers would absorb some of the cost in the form of higher borrowing costs. While we do not know the precise impact the tax would have on

lending and borrowing costs, directionally the results are clear. And they are reason for pause. The Administration's proposal should not be viewed in isolation as other regulatory and tax reform policies around the globe will each have effects on the availability of credit throughout the financial system. The IMF, Financial Stability Board and Basel Committee on Banking Supervision are engaged in an ongoing effort to assess the cumulative quantitative impact of the numerous regulatory and tax proposals that are in varying stages of implementation. Policymakers would be well served to have a better understanding of the interactions and potential consequences of these proposals and proceed in a thoughtful manner.

Taking these questions and concerns into account, the Financial Services Roundtable does not support the Administration's Financial Crisis Responsibility Fee as proposed. We look forward to working with the members of this committee as you weigh these issues. Given the significant issues involved, it is important to move carefully.