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September 29, 2015

The Honorable Mitch McConnell
Majority Leader
United States Senate
Washington, D.C. 20510

The Honorable Harry Reid
Minority Leader
United States Senate
Washington, D.C. 20510

Dear Majority Leader McConnell and Minority Leader Reid:

On behalf of the more than 6,000 community banks represented by ICBA, I write to express our strong and continued opposition to any reduction in the dividend rate paid on Federal Reserve stock to offset spending in the highway transportation bill. This dividend reduction amounts to a backdoor tax increase that would disproportionately impact community banks and their customers. Regrettably, ICBA must oppose any transportation bill that includes it.

All Federal Reserve member banks and all nationally chartered banks are required to purchase Federal Reserve stock. This stock is effectively “dead capital” because it may not be sold, transferred, or used as collateral. The dividend offsets the cost of setting aside capital that could otherwise be used for lending and other services.

Reducing the dividend has not been studied and could result in significant unintended consequences for years to come. Federal Reserve Chair Janet Yellen has expressed serious reservations about the proposal and its impact on Federal Reserve membership. The Chairman and Ranking Member of the Banking Committee have opposed the proposal. Chairman Shelby called it a “far reach” to fund highways with Federal Reserve dividend funds. Ranking Member Brown noted that the proposal takes “money from a lot of community banks,” and said, “We should be working this out in committee, discussing it, and hearing people on both sides.” Many Senators off committee and from both sides of the aisle have expressed similar views. In terms of setting a precedent, the prospect of converting the Federal Reserve’s balance sheet into a menu of spending offsets is enormously troubling.

Community bankers from across the country are working diligently to communicate the urgency of enacting regulatory relief, and they see the 114th Congress as a window of opportunity to finally obtain such relief. To instead be faced with a new, wholly unexpected loss of revenue – in order to fund spending with absolutely no nexus to the financial sector – would add insult to injury and further impair their ability to support local lending and economic growth.

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I urge you to oppose any reduction in the dividend paid on Federal Reserve stock as an offset in the highway transportation bill.

Thank you for your consideration.

Sincerely,

/s/

Camden R. Fine
President & CEO

CC: Members of the United States Senate

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