DEPARTMENT OF THE TREASURY
WASHINGTON

UNDER SECRETARY

May 3, 2011

The Honorable Sherrod Brown
United States Senate
Washington, DC 20510

Dear Senator Brown,

Thank you for your letter of March 18, 2011 concerning the recently announced Comprehensive Capital Analysis Review ("CCAR") and the setting of bank capital requirements.

I agree with you that enhanced regulatory capital requirements are a critical part of limiting risks to the financial system. That is why the Administration worked hard to gain the commitment of G20 Leaders and Finance Ministers to support substantial improvements in international capital standards. The Basel III requirements will significantly increase the quality and quantity of capital that banks must hold and will include a new supplementary leverage ratio. Together these standards will better align regulatory capital requirements with the risks to which banks are exposed.

The U.S. is committed to implementing Basel III within the agreed upon timeframes and working with its international partners to address any remaining issues, including the appropriate level of loss absorbing capital for systemically important financial institutions. This issue parallels a requirement in the Dodd-Frank Wall Street Reform and Consumer Protection Act that the Federal Reserve apply more stringent capital standards to large, interconnected financial institutions than those applied to other banks. Work on this issue will continue in the Basel Committee and the Financial Stability Board.

The Administration supports this work, but the Treasury Department does not have the authority to set capital requirements. That authority is held by the independent financial regulatory agencies. Similarly, Treasury did not conduct the CCAR exercise and did not have a role in evaluating the independent capital management decisions taken by the firms subject to this exercise.

The results of the CCAR exercise, however, demonstrate how effective the policy measures taken by the government were at stemming the crisis and repairing the damage it caused. The TARP Program, in combination with the Supervisory Capital Assessment Program, helped to crowd in higher quality private capital. Since Congress passed TARP in October 2008, the capitalization of the banking system has improved significantly, financial market conditions have normalized, and the economy is again growing. In particular, common equity at the 19 bank holding companies that participated in the Supervisory Capital Assessment Program, increased $300 billion from Q4 2008 through the end of 2010, including the equity raised in connection with the redemption of U.S. government investments under the Troubled Asset Relief Program (TARP). Accordingly, the weighted average Tier 1 common ratio for those 19 bank holding companies rose from 5.4 percent as of 4Q 2008 to 9.4 percent as of 4Q 2010, reflecting an overall increase in Tier 1 common capital of $275 billion. Bank recapitalization has continued as the Federal government withdraws the supportive measures it set up during the financial crisis.

Thank you again for your commitment to these critical issues.

Sincerely,

Jeffrey A. Goldstein