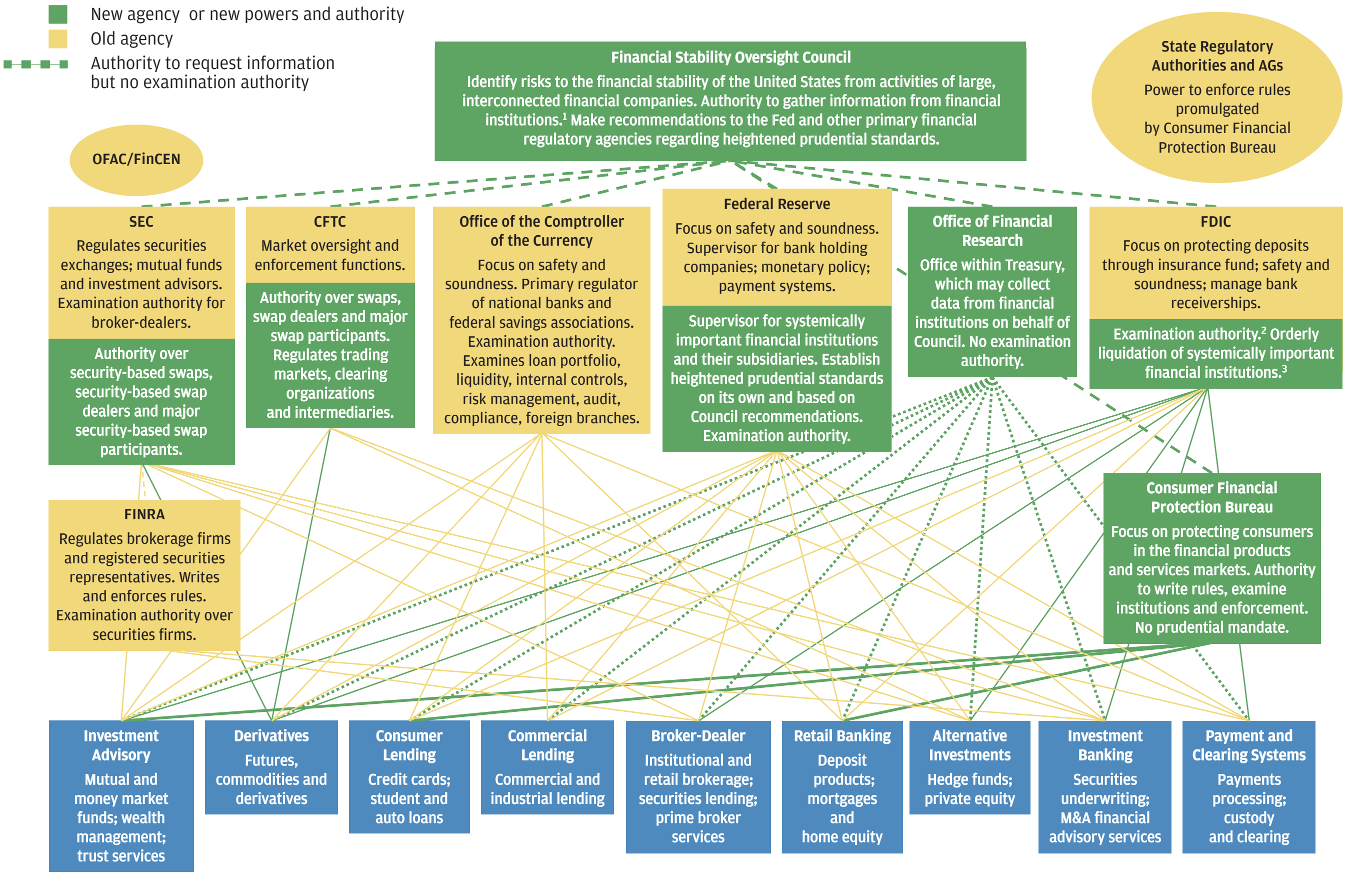

Note: Green lines from SEC and CFTC represent enhanced authority over existing relationships

weak to effectively manage the overlap and complexity. We have hundreds of rules, many of which are uncoordinated and inconsistent with each other. While legislation obviously is political, we now have allowed regulation to become politicized, which we believe will likely lead to some bad outcomes.

And we have been very slow in finishing rules that are critical to the health of the system. The rules under which mortgages can be underwritten and securitized still have not been completed – three and a half years after the crisis began. This is unnecessarily keeping the cost of mortgages higher than they otherwise would be, slowing down the recovery. Basel III created additional "capital confusion" as banks did not know what the specific capital rules would be going forward – the banks still don't know exactly how much capital they will be required to hold, when the regulators would like the banks to get there and how they will be able to use their excess capital when they do get there. The Commodity Futures Trading Commission (CFTC) and the U.S. Securities and Exchange Commission (SEC), responsible for different parts of the swaps business, have not yet come up with common rules. And the several agencies claiming jurisdiction over the Volcker Rule have proposed regulations of mind-numbing complexity. Even senior regulators now recognize that the current proposed rules are unworkable and will be impossible to implement.

The rules also will create unintended consequences. Nearly 40% of all Americans have FICO scores below 660. Many of the new capital rules make it prohibitively more expensive to lend to this segment (if you are a bank). And the Federal Deposit Insurance Corporation (FDIC) now charges us approximately 10 basis points on all assets (not just the deposits it insures – we now are paying the FDIC approximately $1.5 billion a year), making all lending more expensive and, in particular, distorting the short-term money markets that lend large sums of money over short periods of time at low interest rates.

The chart above assumes these activities are conducted in a systemically important bank holding company (BHC)

1 The Council, through the Office of Financial Research, may request reports from systemically important BHCs

2 The FDIC may conduct exams of systemically important BHCs for purposes of implementing its authority for orderly liquidations but may not examine those in generally sound condition

3 The Dodd-Frank Act expanded the FDIC's authority when liquidating a financial institution to include the bank holding company, not just entities that house FDIC-insured deposits