FINANCIAL SERVICES COMMITTEE
SUBCOMMITTEE ON CAPITAL MARKETS, INSURANCE, AND GOVERNMENT SPONSORED ENTERPRISES
SUBCOMMITTEE ON OVERSIGHT AND INVESTIGATIONS
SCIENCE AND TECHNOLOGY COMMITTEE
SUBCOMMITTEE ON SPACE AND AERONAUTICS
SUBCOMMITTEE ON INVESTIGATIONS AND OVERSIGHT

Alan Grayson
Congress of the United States
8th District, Florida

WASHINGTON DC OFFICE:
1605 LONGWORTH HOUSE OFFICE BUILDING
WASHINGTON, DC 20515
(202) 225-2176

DISTRICT OFFICE:
455 NORTH GARLAND AVENUE
SUITE 402
ORLANDO, FL 32801
(407) 841-1757

February 16, 2010

Sheila Bair
Chairman
Federal Deposit Insurance Corporation
550 Seventeenth Street, NW, Room 6076
Washington, DC 20429

Dear Chairman Bair,

We write to applaud you for taking an important step towards holding bank executives accountable for risky, destructive behavior. If your proposal to tie deposit insurance premiums to executive compensation structures is enacted, banks will be charged more for deposit insurance if their executives gamble with the firm's money. Our constituents feel that executives on Wall Street have looted their banks, and then have billed taxpayers "for services rendered." They have lost confidence in other regulators. Thanks to you, finally it seems as though there's a cop on the beat on Wall Street.

A bank executive who seeks to maximize short-term gain at the expense of solvency is not just putting his bank's shareholders and creditors at risk, but also the US taxpayer and the FDIC deposit insurance fund. By seeking to foreclose that possibility, the FDIC continues to earn the kind of public trust that is so lacking throughout the regulatory community.

On the specific question of whether pay packages contribute to risk, it should by now be quite obvious that a financial institution that pays its executives with a 'heads I win, tails you lose' pay package is likely to destroy itself. We saw this during the Savings and Loan crisis, during the bailout of Long Term Capital Management, and during the most recent financial crisis. Paul Volcker, Bill Black, Simon Johnson, and other economists and observers have made this point.

It's also clear, as well, what happens when executives have well-designed pay packages. When "bulge bracket" investment houses were private partnerships, executives were leery of putting their own capital on the line in risky schemes. This created a natural barrier against reckless and risky behavior. When Wall Street firms began going public, and offloading risk onto shareholders, executive behavior suffered. Now that these firms can gamble with money from the Federal Reserve and from taxpayers, executive behavior is even worse.

While it would be nice to presume that large banks are chastened by their recent need to beg the public for capital, it is clear that financial services executives "just don't get it". Lloyd Blankfein of Goldman Sachs recently claimed that his firm is 'doing the lord's work'. Harvard Business School Professor and Goldman Board member Bill George just compared bankers who lose gargantuan amounts of money to professional athletes and movie stars. The large bank lobby has worked furiously to water down reform; the Securities Industry and Financial Markets Association is resisting a mild fee on large banks, and aggressively sought loopholes in derivatives legislation.

Unlike those at community banks, executives at large Wall Street banks have consistently displayed cavalier attitudes towards risk. Despite large bonuses on Wall Street and the gnashing of teeth among regulators, very little seems to have changed as of yet. We applaud Chairwoman Bair and the FDIC for breaking this damaging cycle of passivity, and taking the first real steps to rein in dangerous executive compensation structures. According to Section 7 of the Federal Deposit Insurance Act, the FDIC clearly has the authority to use any factor it "determines relevant" when assessing the probability that the Deposit fund will incur a loss with respect to any specific institution. Compensation structures are certainly relevant in terms of understanding the risks that these banks are incurring.

We disagree with Comptroller John Dugan's dissenting statement on this. Comptroller Dugan's argument is that higher insurance deposit costs are unnecessary merely because Congress is debating granting authority to rein in executive pay, and that the Federal Reserve is working on the problem. He also argues that there is no evidence that executive compensation structures contribute to losses in the Deposit Insurance Fund. These arguments seem meritless. In light of recent history, trusting the Fed to rein in banker pay is like asking an arsonist to guard the armory. His argument that there is "no evidence" compensation structures contribute to institutional risk might have credibility if his own agency had shown any interest at all in stemming the 'epidemic of mortgage fraud' that the FBI noted as early as 2004. As is, his arguments simply justify the continued looting of large banks by their executives.

Our constituents are demanding action, not idle chatter. In Congress, we are debating what steps to take. In the meantime, we appreciate outstanding judgment that Chairwoman Bair, Vice Chairman Martin Gruenberg, and Thomas Curry have shown in carrying out their duty to the public.

Regards,

Alan Grayson

Wm. Lacy Clay

Bob Filner

John Conyers Jr.

Jackie Speier

Lloyd Doggett

Pete Stark

Marcy Kaptur

Luis V. Gutierrez

Brad Sherman

Keith Ellison

Michael E. Capuano