JEB HENSARLING, TX, CHAIRMAN

United States House of Representatives
Committee on Financial Services
Washington, D.C. 20515

MAXINE WATERS, CA, RANKING MEMBER

January 10, 2014

The Honorable Janet Yellen
Vice Chair
Federal Reserve Board of Governors
20th Street and Constitution Ave, NW
Washington, D.C. 20551

Dear Vice Chair Yellen:

Congratulations on your historic confirmation to head the Federal Reserve. We are confident that your wealth of experience and knowledge best positions you to lead our central bank through this critical recovery period. As you begin your term at the Federal Reserve, we ask that you and the Members of the Board of Governors consider the range of unique challenges facing community banks.

Despite the steady economic gains we've seen on Wall Street and among the nation's large banks, community banks continue to face strong headwinds – both regulatory and competitive pressures that will threaten their viability heading into 2014. Preserving these smaller institutions is critically important, as they provide vital financial services to millions of underserved communities across the country and provide almost half of all small loans to our nation's farms. Moreover, their role in supplying credit is critical for small businesses, which employ roughly 48 million Americans.

Community banks have always been distinguished by the unique combination of services they provide to their customers, as well as the manner in which they do business. They tend to be relationship lenders, characterized by local ownership, local control, and local decision making. By offering traditional banking services such as lending and deposit acceptance at the local level, community banks foster economic growth and help to ensure that the financial resources of the local community are put to work on its behalf. Moreover, they have always been inextricably linked to entrepreneurship and business development. According to a study released by the Federal Deposit Insurance Corporation (FDIC), as of 2011, community banks held only 14 percent of banking industry assets, yet they hold 46 percent of the industry's small loans to farms and businesses.

The FDIC further notes that community banks hold the majority of banking deposits in the United States' rural counties. More critically, there are more than 600 counties that have no other physical banking offices except those operated by community banks. According to the FDIC, 16.3 million residents in more than one-third of our nation's counties "would have limited physical access to mainstream banking services without the presence of community banks."

In our view, the Board of Governors' proactive engagement on issues concerning community banks could work to assuage the concerns of many small institutions that may not have a robust understanding of the nuances of the Federal Reserve System and may be struggling with the vast range of new Dodd-Frank regulations. Through your leadership on the Board, it is our hope that unique challenges facing community banks are taken into account and reflected in the Fed's policy making and regulatory agenda.

Sincerely,

Maxine Waters

Stephen F. Lynch

Gary C. Peters

Denny Heck

Michael E. Capuano

Al Green

Joyce Beatty

Keith Ellison

Gregory W. Meeks

John C. Carney

Bill Foster

Emanuel Cleaver

Dan Kildee

Rubén Hinojosa