AFR Americans for Financial Reform

July 25th, 2017

Dear Senator,

On behalf of Americans for Financial Reform, we are writing in opposition to the confirmation of Randal Quarles for Vice-Chair for Supervision at the Federal Reserve.[1] This nomination is a step back into the past, not a step forward toward proper regulation of the financial system. Mr. Quarles was an important part of the GW Bush financial regulatory team that missed the signs of the oncoming financial crisis and failed to take effective action as Wall Street risks grew out of control. He has shown no evidence that he has learned sufficiently from this failure. Unless and until he does, Senators should vote against his confirmation.

As the lead appointee responsible for consolidated supervision of the largest bank holding companies, the Vice-Chair for Supervision plays a critical role in the oversight of the largest Wall Street banks. Indeed, this is perhaps the most crucial post in the entire financial regulatory system for protecting the public against the risk of another Wall Street crash and its economic consequences.

In selecting Mr. Quarles, the Trump Administration has reached back to the economic team of the Bush Treasury, where Mr. Quarles served from 2001 to 2006. At the end of his tenure, he was Under Secretary for Domestic Finance and coordinator of the President's Working Group on Financial Markets. In these roles, he supervised Treasury and Administration policy for the banks and financial markets that were to collapse so catastrophically less than two years after he left government.

Like the rest of the Bush Administration team, Mr. Quarles showed no evidence of being aware of the historic meltdown of the U.S. and global financial sector that was about to occur, or of the significance of the toxic and fraudulent Wall Street activities that were taking place on his watch. Indeed, in a 2006 speech he minimized and downplayed the likelihood of a market or economic crash based on subprime housing market activity.[2] During the period in which he played a leadership role on the President's Working Group on Financial Markets, the group was apparently occupied with seeking out opportunities for still more industry deregulation rather than investigating or preventing financial instability and the coming crash.[3]

Since the financial crisis, Mr. Quarles has shown no public evidence of rethinking his perspective based on the lessons of the 2008 collapse. While the financial crisis was devastating to tens of millions of Americans, Mr. Quarles was able personally to reap large financial benefits from it. As a leading partner in a private equity firm, he profited from government fire sales of

[1] Americans for Financial Reform is an unprecedented coalition of more than 200 national, state and local groups who have come together to reform the financial industry. Members of our coalition include consumer, civil rights, investor, retiree, community, labor, faith based and business groups.
[2] Quarles, Randal, "Remarks of Randal Quarles Before the Women In Housing and Finance", U.S. Department of the Treasury JS-4316, June 13, 2006. Available at http://bit.ly/2eLjcTq
[3] Solomon, Deborah, "Paulson Pulls For U.S. Markets: Treasury Chief Aims to Tweak Rules Some Say Are Harming Nation's Competitiveness", Wall Street Journal, October 23, 2006.

bank assets in the Bank United deal, which was backstopped by taxpayer guarantees provided by the Federal Deposit Insurance Corporation (FDIC).[4] While these kinds of deals were perfectly legal, they hardly indicate an experience that would lead Mr. Quarles to prioritize the damage done to the great majority of Americans by the financial collapse, or to reconsider his own role in permitting it to happen.

Congress should not hand the key regulatory role of Vice-Chair of Supervision back to a member of the same group of insiders who failed to take action to stop the financial crisis and then profited personally from its fallout. At the very least, the Banking Committee needs to ask Mr. Quarles tough questions about what he has learned from past failures, and whether he supports the deregulatory agenda that has recently been laid out by the Trump Administration's Treasury Department in their recommendations on bank oversight.[5] These recommendations call for weakening bank oversight across the full range of regulations put in place since the 2008 crisis, possibly setting the stage for the next financial crisis. As Vice-Chair of Supervision, Mr. Quarles would be in a position to put many of these recommendations in place without the need for Congressional approval or legislative action.

The Vice-Chair of Supervision will lead our critical first line of defense against the economically devastating impact of future Wall Street misbehavior. Mr. Quarles' record and his role in past regulatory failures indicate that he is not the right candidate for this position.

Sincerely,

Americans for Financial Reform

[4] Bansol, Paritosh and Claire Baldwin, "Dealtalk: BankUnited Owners Cash In, FDIC Nurses Losses", Reuters Dealtalk, January 26, 2011. Available at http://reut.rs/2uXci3r
[5] Americans for Financial Reform, The Trump Treasury and the Big Bank Agenda, Washington, DC, June 21, 2017. Available at http://bit.ly/2uUP12h