Testimony of Alex Sanchez

President and CEO

Florida Bankers Association

Before the

House Committee on Financial Services

Subcommittee on Financial Institutions and Consumer Credit

Madame Chairwoman and Members of the Subcommittee:

Thank you for holding this important hearing on the Treasury Department's proposed regulation to require U.S. banks to report interest paid on deposits to nonresident alien individuals (REG-146097-09) and the damaging effect this regulation would have on our economy and U.S. employment.

My name is Alex Sanchez and I am the President and CEO of the Florida Bankers Association ("The FBA"). The FBA was founded in 1888 and it represents most banks in Florida. I am also here on behalf of thousands of Florida small business owners who do business with Non Resident Aliens who reside in our state three to six months a year, and shop, buy real estate, eat in our restaurants and help our overall economy.

As you may know, this Treasury regulation requires all banks located in the United States to report periodically to the Internal Revenue Service the amount of interest paid to nonresident alien individual depositors. We strongly oppose this proposal. This proposed regulation by the Obama Administration would have disastrous consequences for U.S. banks and their customers, especially those in Florida, Texas, California and New York.

At a time when we are trying to create jobs and reduce the burden on businesses, this is the wrong issue at the wrong time. Last January the President announced a plan for fewer regulations on businesses to create jobs, yet that same month, the I.R.S. proposed another new burdensome reg to pile on the others and to make matters worse for our country and for those who are being asked to create jobs. This proposal could result in the flight of tens to hundreds of billions of dollars of capital leaving our country thereby hurting our economy.

All members of the Florida Delegation to the U.S. House of Representatives – 19 Republicans and 6 Democrats, spearheaded by Congressman Bill Posey and Congresswoman Debbie Wasserman Schultz – have **signed a letter to President Obama** urging withdrawal of a proposed **IRS regulation** that would undermine U.S.

financial markets by requiring American banks to put foreign tax law above U.S. Tax law.

Florida Senators, Bill Nelson (D) and Marco Rubio (R) have also written to the Administration asking that this proposal be withdrawn.

Why did Florida's entire Congressional delegation sign the letter to the President, because for more than 90 years the U.S. government has encouraged foreigners to put their money in U.S. banks by exempting these deposits from taxes and reporting. This policy has led to hundreds of billions of foreign deposits in U.S. banks. Each dollar deposit results in $7 to $9 in economic activity. Now the Obama Administration is a advancing a policy that would overturn the century-old policy and discourage such investments.

We should be encouraging foreigners to put their money to work in U.S. banks. But at a time when our economy is struggling and we are seeking to increase capital to lend to small businesses, the real job creators, the Obama Administration's proposal to require reporting of such interest payments would put these deposits at risk, and lead to billions of dollars being withdrawn from U.S. financial institutions.

The IRS has proposed a major policy change without considering the detrimental effects it will have on our struggling economy. Bank funds are easily transferrable, and any adverse development can result in wholesale capital flight.

In my meetings with Treasury officials, I stated to **Treasury Tax Counsel** Ms. Corwin, there are not many Americans if any at all, that have bank accounts in South American Banks. Where is the reciprocity for the U.S.? Our country loses tens to hundreds of billions of dollars in capital and we do not receive any information in return.

Ms. Corwin stated to me they would only exchange this information with countries the U.S. has an exchange treaty with. In our Hemisphere those countries are Venezuela and Mexico. I asked Ms. Corwin would she exchange tax information with the two countries in South America we do have these treaties with: Hugo Chavez's Venezuela and the number one kidnapping country in the world according to most if not all Human Rights Groups: Mexico. She did not answer my question. My response to her was then why are you proposing to collect this information for all countries? No one out there is going to believe us when we tell them the U.S. Federal government is collecting this information but will not exchange it with their home country. Ms. Corwin said it was the banking industry's responsibility to inform and educate all of our customers and potential customers that the I.R.S. would only exchange the information with countries we have a treaty with. That is impossible most people would ask why is the U.S. Government collecting it if it will not exchange it?

Florida, already hard hit by the economic downturn, would be particularly affected given its extensive ties to the Caribbean and Latin America. There is an estimated $60 to $100 billion in foreign deposits in Florida banks. These accounts are longstanding and are not associated with illegal activity. U.S. banks are required to know and disclose the identity of their customers pursuant to the Bank Secrecy Act, Patriot Act and other anti-money laundering statutes.

Florida could lose these billions in foreign deposits if the IRS program takes effect. Furthermore, due to the fact that these deposits represent as much as 50 to 90 percent of the capital in some Florida banks, even a small percentage change in these deposits could result in bank failures.

While these are difficult times in the U.S. economy, circumstances elsewhere make our country an even greater repository for individuals seeking safety and security. According to data recently released by the Bureau of Economic Analysis (BEA), the value of foreign investments in the United States continued to vastly exceed the value of U.S. investments abroad reflecting an additional $75 billion increase from year-end 2009 to year-end 2010. (www.bea.gov/newsreleases/international/intinv/intinvnewsrelease.htm) The BEA further reports that this change "primarily reflected net foreign acquisitions of financial assets in the United States that exceeded net U.S. acquisitions of financial assets abroad." (*Id.*) In the aggregate, foreign-owned assets in the United States increased by $1.9 trillion in 2009 and now amount to $22.7 trillion.

As would be expected, the bank segment of these foreign investments is very significant, and, again according to the most recent BEA report "liabilities to private foreign residents reported by U.S. banks, increased $166.6 billion and now total $3.7 trillion." The FDIC reports a total of U.S. bank deposits at approximately $10 trillion at the end of the second quarter in 2011, so we are at a loss to understand how the $3.7 trillion figure, no matter how subdivided among public, corporate and individual segments can be considered a "very small percentage.

Because the interest payments in question are not subject to U.S. tax, this additional reporting requirement for banks will not further any U.S. financial interest in collecting revenues from foreign depositors. Nor, in our view, is the requirement an appropriate means to accomplish any other public policy purpose intended to be served by the proposal. In addition, the regulation, for the reasons discussed below, will impose significant costs on the nation as a whole and continue to weigh on an economy trying to recover.

The proposal is in conflict with a longstanding objective of the Treasury Department and the Congress: to encourage nonresident aliens to deposit their money in U.S. banks, so that those funds can, in turn, be used to foster growth and development in our country. We are convinced that adoption of the proposal will place U.S. banks at a competitive disadvantage relative to the banks of our trading partners and will result in significant withdrawals of foreign deposits from U.S. banks. This will ultimately reduce the amount of credit available to local communities and others who traditionally seek bank loans as their chief source of credit. A loss of jobs, jobs and even more jobs.

Because of the security our country offers too many around the world, nonresident aliens deposit their monies in U.S. financial institutions for safety and security reasons. Should this regulation be finalized, economic and academic sources indicate that a substantial portion of that capital will be withdrawn from the U.S. economy. Some deposits may have already been withdrawn from U.S. financial institutions, as was the case in 2002 when this issue was previously considered. During this time of economic concern, we urge that every effort be made to keep capital within the borders of the United States.

They are concerned that their personal bank account information could be leaked by unauthorized persons in their home country governments to criminal or terrorists groups upon receipt from U.S. authorities, which could result in kidnappings or other terrorist actions being taken against them and their family members in their home countries, a scary scenario that is very real.

To Florida, this issue is critical to our economy. If we lose just half of a potential $100 billion in these deposits, it will kill our economy.

Should this proposed regulation be finalized, economic and academic sources indicate that a substantial portion of the capital will be withdrawn and moved to non-U.S. jurisdictions or non-bank institutions not affected by the regulations. The I.R.S. has failed to do any feasibility study on what impact this proposal would have and how some countries particularly in South America would handle the privacy issues and concerns we have shared with them. These accounts are easily movable to offshore institutions. The loss of these funds means the loss of **jobs, jobs and even more jobs** in this fragile economy. These deposits are used by banks to lend to businesses in their respective communities.

Most of the NRA deposits in Florida banks come from Latin America. Why is that? Well as we know now and learned back then in 2001, South Americans have their monies here in the USA for these primary reasons:

1. They do not trust the privacy of their public or private institutions in their home country;
2. They are afraid of kidnappings of family members if someone in the home country knows of their bank deposits and prefer to have their monies in USA;
3. Are concerned with the economy of their home countries and they view having their monies in the USA as safer and sounder.

These deposits could be used by banks in the U.S. to lend to small businesses, and to all the businesses creating jobs for our nation and economy.

America's financial institutions benefit greatly from deposits of foreigners in U.S. banks. These deposits help finance jobs and generate economic growth mainly benefiting local communities, consumers, families, and small businesses. For more than 90 years, the United States has recognized the importance of foreign deposits and has refrained from taxing the interest earned by them or requiring their reporting.

The regulation could drive job-creating capital out of America and harm U.S. financial markets. According to the Commerce Department, foreigners have $10.6 trillion passively invested in the American economy, including nearly $3.6 trillion "reported by

U.S. banks and securities brokers." In addition, a 2004 study from the Mercatus Center at George Mason University estimated that "a scaled-back version of the rule would drive $88 billion from American financial institutions, and this version of the regulation will be far more damaging."

Madame Chair and members of this Subcommittee this is the wrong issue at the wrong time, as we try to get this economy going again. I know you made our economic recovery a priority, adoption of this rule will not help achieve that goal. Our country since 1922 has welcomed foreign capital to our shores. If this rule is adopted, it would halt that long standing goal of our country that helped create jobs in America by the use of this capital in the form of NRA deposits. IF OUR COUNTRY LOSES THESE DEPOSITS AND THE ACCOUNTS ARE CLOSED, THESE NON RESIDENT ALIENS WHO RESIDE IN OUR COUNTRY three to six months a year, WILL ALSO PROBABLY DIVEST OTHER ASSETS AND MOVE THEM ELSEWHERE. WHAT DOES THIS MEAN, A LOSS OF EVEN MORE JOBS IN THE INDUSTRIES THAT CATER TO THE NRAS, INCLUDING THE FINANCIAL SERVICES INDUSTRY THAT PROVIDES FOR HIGH PAYING JOBS.

We urge to approve legislation that will result in this proposed regulation being withdrawn and send a clear message to existing and potential depositors that the U.S. encourages such deposits and believes America's best interest is served by maintaining current policy.

Thank you Madame Chair and Members of this Subcommittee for this opportunity for me to share the thoughts of Floridians on this issue.

United States House of Representatives
Committee on Financial Services

"TRUTH IN TESTIMONY" DISCLOSURE FORM

Clause 2(g) of rule XI of the Rules of the House of Representatives and the Rules of the Committee on Financial Services require the disclosure of the following information. A copy of this form should be attached to your written testimony.

1. Name:	2. Organization or organizations you are representing:
Alex Sanchez	Florida Bankers Association

3. Business Address and telephone number:

[redacted]

4. Have you received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?	5. Have any of the organizations you are representing received any Federal grants or contracts (including any subgrants and subcontracts) since October 1, 2008 related to the subject on which you have been invited to testify?
☐ Yes ☒ No	☐ Yes ☒ No

6. If you answered .yes. to either item 4 or 5, please list the source and amount of each grant or contract, and indicate whether the recipient of such grant was you or the organization(s) you are representing. You may list additional grants or contracts on additional sheets.

7. Signature:

Alex Sanchez

Please attach a copy of this form to your written testimony.