

Statement of Senator Charles Schumer
Banking Committee Hearing – “Modernizing Bank
Supervision and Regulation: Part II”

March 24, 2009

Mr. Chairman, thank you for holding this important hearing. Modernizing our balkanized bank regulatory structure is critical to restoring confidence in our financial sector. It is an accident of history that we have so many different banking regulators with so many different jurisdictions, and there is no good reason that it should continue.

It is especially nonsensical that we have allowed banks to choose their own regulator. **With all due respect to the regulators, it’s like if major league baseball announced tomorrow that from now on, pitchers could choose their umpires, and on top of that, the umpires’ salaries would go up the more they were chosen.** I think we know what would happen. You’d get a bigger strike zone and a lot more called

strike threes. And that's basically what we've done. I am not impugning the motives of anyone here. But I think we've created a set of perverse regulatory incentives that have contributed to our current crisis.

Bank regulators need to remember that their "clients" are not the regulated banks, but those banks' customers, and, more broadly, the health of the banking system at large.

With that in mind, it is also important that we address the issue of consumer protections (or lack thereof) developed by the federal regulators.

We gave the Federal Reserve the power to regulate the mortgage market, the power to end abusive lending practices, way back in 1994. Yet the Fed, and the rest of the regulators did not utilize these powers until 2007, when it was already far too late. The damage had already been done, and the economy was careening towards the disaster that we now face.

From this example, and others, such as the failure to rein in abusive credit card practices, **it seems clear that the regulators have become captive to the regulated entities, especially when it comes to consumer protections, just as financial institutions have engaged in “trip wire pricing”, designed to induce mistakes by consumers so that the companies can jack up fees and drive up revenues.**

To address this failure, Senator Durbin and I have introduced bill that would create a Financial Products Safety commission, similar to the Consumer Products Safety Commission, whose primary goal will be to ensure that consumers interests are made paramount.

Thank you for holding this hearing Mr. Chairman. I look forward to working with you and my colleagues on this committee on these important issues.