Senate Banking Committee
Hearing on Prohibiting Certain High-Risk Investment Activities by Banks and Bank Holding Companies
Remarks by Senator Sherrod Brown
February 2, 2010

Thank you, Mr. Chairman for holding this hearing on the Administration's plan to curb risky investment activities by banks. I also want to welcome the witnesses and thank them for their participation.

Chairman Volcker made the point recently that that the ATM has been the biggest innovation in the financial services industry over the past 20 years. The leading provider of ATM technology, NCR Corporation, started in Dayton, Ohio.

I agree with Chairman Volcker that we should support the sorts of financial innovations that have value for working families.

Unfortunately, instead of helping working families save and invest, the largest financial institutions "innovated" in ways that fueled the financial crisis.

Despite the fact that these large, dangerously intertwined institutions recklessly underwrote exotic securities and gambled on toxic assets, they received a multibillion-dollar bailout from American taxpayers.

It may have been necessary to prevent a complete financial collapse, but that doesn't make is any less noxious. Americans are disgusted that Wall Street can make or break our economy. So am I.

And while the big banks got help, some of the smaller banks have not been so lucky, particularly in Ohio.

National City Corp. was a vital part of the Cleveland community from 1845 until 2008. National City experienced severe difficulties caused by its involvement in the subprime market, but the Treasury Department denied its application for TARP funds. Instead, the government gave PNC Bank TARP money to purchase National City.

This unfortunate development cost an untold number of jobs in Ohio. In response to this case, I sent a letter to Treasury letting them know of my concern about the TARP program being used to fund bank consolidation, rather than helping to rescue small, ailing banks.

Over one year later, it appears that my concerns were justified. Large banks are bigger than ever, and they are reaping great benefits from their expansion and consolidation.

A study by the Center for Economic and Policy Research found that the "too big to fail" banks that carry implicit government guarantees are able to borrow at a lower interest rate than other banks. According to their figures, this implicit "too big to fail" guarantee amounts to a government subsidy of $34.1 billion a year to the 18 banks with more than $100 billion in assets.

Consolidation is also hurting community banks, thrifts and credit unions. According to the Kansas City Fed, the top four banks raised fees related to deposits by an average of 8 percent in the second quarter last year. To compete with the big banks, smaller banks lowered their fees by an average of 12 percent during the same period. This is the classic story of the big guys running the smaller guys out of town…at the expense of free market competition.

These consolidations are not only undercutting community banks and their customers, but they are breeding the very environment that threw our financial system into chaos, creating a deep, deep recession.

We don’t want to bail out another set of “too big to fail” banks. We don’t want to see risk multiplied a thousand fold by mega banks that have trillions of dollars in assets.

We need regulatory reform because we need strict oversight of the major threats to our financial system posed by the size and activity of large, interconnected financial institutions. We need to tackle head-on the “too big to fail” problem. As you said in excellent your op-ed in Sunday’s New York Times, Chairman Volcker, “We need to face up to needed structural changes, and place them into law.”

Thank you, Mr. Chairman. I look forward to hearing the witnesses’ testimony.