United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Opening Statement of Chairman Christopher J. Dodd
"Modernizing Bank Supervision and Regulation, Part II"

Remarks as Prepared:

Good morning. Today we again explore ways to modernize and improve bank regulation and supervision to better protect consumers and restore confidence in our banking system.

We do so at a time when our country's massive challenges loom large. All of us in Congress, Democrats and Republicans alike, are working together to meet these challenges and restore public confidence. In the coming weeks, we'll be working on critical legislation to lay out a long-term budget blueprint, to address our continuing financial crisis, and to address the issue of executive compensation.

As we continue to address the economic crisis going forward, we must recognize that not all banks are responsible for this crisis. As Chairman Bernanke has said, small bank lending might well help lead the way out of it.

None of this is to suggest that small banks don't face economic troubles of their own. Some do – and on almost a weekly basis we hear stories about how the FDIC takes over banks and works to reassure depositors that their money is safe.

But it would be a mistake to paint every financial institution with the same broad brush. As I have heard from community banks throughout my state of Connecticut, many of our community banks are in far better shape right now than the financial system as a whole.

Why? In part, it is because when financial institutions align their practices and incentives with their long-term health, they are far less prone to engage in risky behavior.

They are far less likely to put their companies and the economic security of the American consumer at risk.

Former Fed Chairman Greenspan believed companies would not take such extraordinary risks that their own survival could be put in jeopardy.

Clearly he was dead wrong. And that assumption cost the American people dearly.

Some of that failure can be attributed to the prevailing ideology of the moment.

From the abusive terms mortgage lenders offered to the practices credit card companies still engage in, many of us believed that if we failed to protect the consumer, we failed to protect our economy. Others felt just the opposite.

Many of us believed that if we all had skin in the game, we would all take the consequences of our actions more seriously. Others were confident risk could be "managed."

Today, it is clear that consistent regulation across our financial architecture is paramount – and that with strong cops on the beat in every neighborhood, institutions would be far less likely to push risk onto the consumer.

Regulators are the first line of defense for consumers and depositors, which is why we need to end the practice of shopping for the most lenient regulator and consider creating a single, consolidated prudential regulator.

In a crisis created first and foremost by a failure to protect consumers, we cannot afford to consider a so-called "systemic risk regulator" without also considering how we can better protect the consumer.

All too often in this crisis, we saw that the relationship between the consumer and their financial institutions was, in effect, severed – because of a lack of incentives to make sure loans paid off down the road.

That wasn't true of the kind of smaller institutions like those in my state of Connecticut. Like so many credit unions and community banks, they recognized something very simple:

That your company reaps the benefits when you treat your customers fairly.

With this hearing, I hope we can take a close look at the how these values can be building blocks for a modernized, 21st century financial architecture. That must be our goal today.

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