REMARKS OF CHAIRMAN CHRISTOPHER J. DODD
U.S. SENATE COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
THE ADMINISTRATION'S PROPOSAL TO MODERNIZE THE FINANCIAL REGULATORY SYSTEM
THURSDAY, JUNE 18, 2009

Good morning. Thank you all for being here. I would like to welcome Secretary Geithner, who is here today to discuss the Administration's proposal to modernize the financial regulatory system. Mr. Secretary, we applaud your leadership on a very complex set of issues intended to restore confidence and stability in our financial system. I look forward to exploring the details of your plan and working with you and my colleagues on this truly historic endeavor.

In my home state of Connecticut and around the country, working men and women who did nothing wrong have watched this economy fall through the floor – taking with it jobs, homes, life savings, and the economic security that has always been the cherished promise of the American middle class. <u>These folks are hurting, they are angry, they are worried. And they are wondering: who's looking out for me?</u>

I've seen first-hand how hard people work in Connecticut to support their families and build financial security. I've seen how devastating this economic crisis has been for them. And I firmly believe that someone should have their backs.

So as we work together to rebuild and reform the regulatory structures whose failures led to this crisis, I will continue to insist that improving consumer protection be a first principle and an urgent priority. I welcome the Administration's adoption of this principle, and I'm pleased to see it reflected in the plans we'll be discussing today. At the center of this effort will be a new, independent consumer protection agency to protect Americans from poisonous financial products.

This is simple common sense. We don't allow toy companies to sell toys that could hurt our kids. We don't allow electronics companies to sell defective appliances. <u>Why should a usurious payday loan be treated any differently than we'd treat an unsafe toy or a malfunctioning toaster? Why should an unscrupulous lender be allowed to dupe a borrower into a loan the lender knows can't be repaid?</u> There's no excuse for allowing a financial services company to take advantage of American consumers by selling them dangerous financial products. <u>Let's put a cop on that beat so that the spectacular failure of consumer protection at the root of this mess is never repeated</u>.

We have been engaged in an examination of just what went wrong in the lead-up to this crisis ever since February 2007, when experts and regulators testified that poorly underwritten mortgages would create a tsunami of foreclosures. Those mortgages were securitized and sold around the world. The market is supposed to distribute risk, but because for years, no one was minding the store, these toxic assets served to amplify risks in our system.

Everything associated with these securities – the credit ratings applied to them, the solvency of the institutions holding them, and the creditworthiness of the underlying borrowers – became suspect. <u>And as the financial system tried to pull back from these securities, it took down some of the country's most venerable institutions – firms that had survived world wars and the Great Depression – and wiped out over $6 trillion in household wealth since last fall</u>.

Stronger consumer protection could have stopped this crisis before it started. Consumers who were sold subprime and exotic loans they couldn't afford to repay were, frankly, cheated. They should have been the canaries in the coal mine. But instead of heeding the warnings of many experts, regulators turned a blind eye. And it was regulatory neglect that allowed the crisis to spread to the point where the basic economic security of my constituents in Connecticut – including folks who'd never even heard of mortgage-backed securities – was threatened by the greed of some bad actors on Wall Street and the failure of our regulatory system.

To rebuild confidence in our financial system, both here at home and around the world, we must re-construct our regulatory framework to ensure that our financial institutions are properly capitalized, regulated, and supervised. The institutions and products that make up our financial system must act to generate wealth, not destroy it.

In November, I announced five principles which would guide the Banking Committee's efforts.

First and foremost, regulators must be <u>focused and empowered</u> – aggressive watchdogs, rather than passive enablers of reckless practices.

Second, we have to remove the gaps and overlaps in our regulatory structure that have encouraged charter-shopping and a race to the bottom in an effort to win over bank and thrift "clients."

Third, we must ensure that any part of our financial system that poses system-wide risk is carefully and sensibly supervised. A firm "too big to fail" is a firm too big to leave unmonitored.

Fourth, we can’t have effective regulation without more transparency. Our economy has suffered from the lack of information about trillion-dollar markets and the migration of risks within them.

Fifth, our actions must help America remain prosperous and competitive in the global marketplace.

These principles will guide my consideration of the plan you bring to the Committee today. Mr. Secretary, I believe that we can find common ground in a number of areas contained in your proposal. I want to thank you, Mr. Secretary, for your leadership on these issues, as well as for your willingness to consider different perspectives in forging your plan. I hope you will view this as a continuation of the dialogue you’ve had with members of this Committee as we work together to shape a regulatory framework that will serve our country well through the 21st century.

I want to thank all of my colleagues on the Committee who have demonstrated a strong interest in this issue. Our continued, bipartisan collaboration will be critical to ensuring that we enact sound and needed reforms to put our financial system back on solid footing.

And I want to urge everyone to remember that, at the end of the day, the success of what we attempt will be measured by its effect on the borrower, the shareholder, the investor, the depositor, and consumers seeking not to attain extravagant wealth, but simply to grow a small business, pay for college, buy a home, and pass on something to their kids. That's the American Dream. That's what we've gathered here to restore.

Thank you.