Senate Committee on Banking, Housing, and Urban Affairs
Hearing on 'Strengthening and Streamlining Prudential Bank Supervision'
August 4, 2009

Opening Statement of Senator Jack Reed, prepared for the record:

Today's hearing addresses a critical part of this committee's work to modernize the financial regulatory system—strengthening regulatory oversight of the safety and soundness of banks, thrifts, and holding companies. These institutions are the engine of our economy, providing loans to small businesses and helping families buy homes and cars, and save for retirement. But in recent years, an outdated regulatory structure, poor supervision, and misaligned incentives have caused great turmoil and uncertainty in our financial markets.

Bank regulators failed to use the authority they had to mitigate the financial crisis. In particular, they failed to appreciate and take action to address risks in the subprime mortgage market, and they failed to implement robust capital requirements that would have helped soften the impact of the recession on millions of Americans. Regulators such as the Federal Reserve also failed to use their rulemaking authority to ban abusive lending practices until it was much too late. I will work with my colleagues to ensure that any changes to the financial system are focused on these failings in order to prevent them from reoccurring (including by enhancing capital, liquidity, and risk management requirements).

Just as importantly, however, we have to reform a fragmented and inefficient regulatory structure for prudential oversight. Today we have an inefficient system of five federal regulators and state regulators that share prudential oversight of banks, thrifts and holding companies. This oversight has fallen short in many significant ways. We can no longer ignore the overwhelming evidence that our system has led to problematic charter shopping among institutions looking to find the most lenient regulator, and has allowed critical market activities to go virtually unregulated.

Regulators under the existing system acted too slowly to stem the risks in the subprime mortgage market, in large part because of the need to coordinate a response among so many supervisors. The Federal Reserve itself has acknowledged that the different regulatory and supervisory regimes for lending institutions and mortgage brokers made monitoring such institutions difficult for both regulators and investors.

It is time to reduce the number of agencies that share responsibility for bank oversight. I support the Administration's plan to merge the Office of the Comptroller of the Currency and the Office of Thrift Supervision, but I think we should also seriously consider consolidating all federal prudential bank and holding company oversight. Right now, a typical large holding company is overseen by the Federal Reserve or the Office of Thrift Supervision at the holding company level, and then the banks and thrifts within the company can be overseen by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and often many others.

Creating a new consolidated prudential regulator would bring all such oversight under one agency, streamlining regulation and reducing duplication and gaps between regulators. It would also bring all large complex holding companies and other systemically significant firms under one regulator, allowing supervisors to finally oversee institutions at the same level as the companies do to manage their own risks.

I appreciate the testimony of the witnesses today and I look forward to discussing these important issues.