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"

Remarks as Prepared:

This hearing marks another in a series of hearings to identify causes of the financial crisis and specific responses that will guide the Committee's formulation of a new architecture for 21st century financial services regulation.

Today we explore ways to modernize and improve bank regulation and supervision to protect consumers and investors and help grow our economy in the decades ahead.

A year ago, this Committee heard from witnesses on two separate occasions that the banking system was sound and that the vast majority of banks would be well positioned to weather the storm.

A year later and taxpayers are forced to pump billions of dollars into our major banking institutions to keep them afloat. Meanwhile, every day, 20,000 people lose their jobs, 10,000 families lose their homes and credit, the lifeblood of our economy, is frozen solid.

People are furious right now, as they should be. But history will judge whether we make the right decisions. And as President Obama told the Congress last month, we cannot afford to govern out of anger or yield to the politics of the moment as we prepare to make choices that will shape the future of our country literally for decades to come.

We need to get this right.

We must learn from mistakes and draw upon those lessons to shape a new framework for financial services regulation – an integrated, transparent and comprehensive architecture that serves the American people well through the 21st century.

Instead of the race to the bottom we saw in the run-up to this crisis, I want a race to the top – with clear lines of authority and strong checks and balances that build the confidence in our financial system that is so essential to our economic growth and stability.

Certainly, there is a case to be made for a so-called "systemic risk regulator" within that framework.

Whether or not those vast powers will reside at the Fed remains an open question. The Fed's primary focus is on the conduct of monetary policy and its ever-ballooning portfolio and its expanding balance sheet which could reach $3 trillion. And that is to say nothing of its increasing number of responsibilities, and the obvious mistakes the Fed made in the run-up to the current crisis.

As Chairman Bernanke very recently said, the role of systemic risk regulation will entail a great deal of expertise, analytical sophistication, and the capacity to process large amounts of disparate information.

I agree with Chairman Bernanke, which is why I wonder whether it wouldn't make more sense to give the authority to resolve failing systemically-important institutions to the agency with actual expertise in that area: the FDIC.

If the events of this week have taught us anything, it is that the unwinding of these institutions can sap both public dollars and public confidence essential to getting our economy back on track. This underscores the importance of establishing a mechanism to resolve these failing institutions.

From its failure to protect consumers, to regulate mortgage lending, to effectively oversee bank holding companies, the instances in which the Fed has failed to execute its existing authority are numerous.

In a crisis that has taught the American people many hard-earned lessons, perhaps the most important is that no institution should ever be "too big to fail." And going forward, we should consider how that lesson applies not only to our financial institutions – but also to the government entities charged with regulating them.

Replacing Citibank-sized financial institutions with Citibank-sized regulators would be a grave mistake.

This crisis has illustrated all too well the dangers posed to the consumer and our economy when we consolidate too much power in too few hands with far too little transparency and accountability.

Further, as former Fed Chairman Volcker has suggested, there may well be an inherent conflict of interest between prudential supervision—that is, the day-to-day regulation of our banks—and monetary policy – the Fed's primary mission and an essential one.

One idea that has been suggested that could complement and support an entity that oversees systemic risk is a consolidated safety and soundness regulator.

The regulatory arbitrage, duplication and inefficiency that comes with having multiple federal banking regulators was at least as much of a problem in creating this crisis as the Fed's inability to see this crisis coming and its failure to protect consumers and investors.

And so, systemic risk is important – but no more so than the risk to consumers and depositors, the engine behind our banking system. Creating that race to the top starts with building from the bottom up.

That is why I am equally interested in what we do at the prudential supervision level to empower regulators—the first line of defense for consumers and depositors—and increase the transparency that is absolutely essential to checks and balances and a healthy financial system.

Each of these issues leads us to a simple conclusion: the need for broad, comprehensive reform is clear. We cannot afford to address the future of our financial system piecemeal or ad hoc, without considering the role every actor at every level must play in creating a stable banking system that helps our economy grow for decades to come.

That must be our goal today.

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