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MEDIA RELEASE

Conference of State Bank Supervisors

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CSBS Statement on Proposed Senate Legislation for Financial Regulatory Reform

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WASHINGTON—Today, Senator Christopher J. Dodd, Chairman of the Senate Committee on Banking, Housing, and Urban Affairs, released his proposal for financial regulatory reform. The current financial crisis has demonstrated weaknesses in our financial system and regulatory structure which are unacceptable and unsustainable. To that end, CSBS commends Chairman Dodd for his efforts to enhance the system of financial supervision within the United States. While Chairman Dodd's bill proposes many thoughtful solutions, CSBS has grave concerns about his proposal to consolidate supervision into one monolithic federal agency. The unintended consequences of such a proposal will likely create a too-big-to-fail regulatory agency that reinforces a too-big-to-fail industry. CSBS asks Chairman Dodd to reconsider the single regulator approach in favor of one that is structured to support a diverse industry and state regulation.

Consolidation of Federal Supervision

CSBS has serious concerns with provisions that would create a single, monolithic federal regulatory agency bestowed with supervisory authority over the nation's banks. Despite the stated objective of creating an efficient and seamless system of financial supervision, the creation of a single federal regulator would have a disastrous impact upon our nation's banking industry and economy as a whole.

Such an approach would produce dramatic industry consolidation that would destroy the diversity of the industry. During the darkest days of this financial crisis, the diverse nature of the financial industry kept credit flowing and prevented a complete economic collapse. Further, consolidation of supervision would eliminate the necessary regulatory checks and balances that have strengthened our financial system. These checks and balances are vital to keeping our financial system accountable to the average citizen and small business, all while ensuring the future of our local and state economies.

Consumer Protection

CSBS applauds Chairman Dodd for including in his legislation the creation of a federal Consumer Financial Protection Agency. Consumer protection standards for all financial service or product providers and a stronger regulatory focus on consumer protection are important steps in restoring needed public confidence.

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CSBS believes that the provisions in Chairman Dodd's bill preserving and enhancing the role of the states in setting and enforcing consumer protection standards are crucial to meaningful consumer protection. Such regulatory checks and balances will lead to more effective consumer protection. Additionally, it is important that the legislation not undermine this state and federal balance by permitting preemptive regulatory actions inconsistent with explicit Congressional mandates.

The bill's affirmation of the states' role in consumer protection must be reinforced with a significant emphasis on effective and timely coordination and information sharing between federal and state regulators. Related to this, CSBS is concerned about separating consumer compliance regulation from prudential supervision, a view shared by others. Any examination or enforcement authority granted to the CFPB should be coordinated with state and federal prudential regulators, should be a back-up to address failings and gaps in the work of prudential regulators, and should be conducted on a risk-focused basis.

Too Big To Fail

The complexity and sheer size of our nation's largest financial institutions have proven to pose a significant risk to the entire economy. If the United States is to continue to have a market-based free enterprise financial system, Congress must aggressively address the threat of the current too-big-to-fail banking system on three fronts:

1. Restrict the risk profile and complexity of systemically significant firms;
2. Establish a mandatory resolution regime for all failed institutions; and
3. Prohibit the Treasury or Federal Reserve from being able to prop up systemic institutions.

CSBS applauds Chairman Dodd for seeking to address this issue and encourages him and the Senate Banking Committee to enhance provisions in the proposal to prevent institutions from becoming so complex and so large that they are considered systemically important. A financial system that provides implicit or explicit guarantees for a select class of institutions will result in increased moral hazard and excessive risk-taking, as those institutions enjoy a competitive advantage over their competitors that lack government backing.

While the legislation creates a necessary and important means for resolving large interconnected financial institutions, more must be done to ensure that systemic institutions that become insolvent are allowed to fail. Government subsidies that were utilized at the height of the crisis to stabilize the financial system and the economy must not be codified into law. Instead, no future officials should be placed in a position of bailing out failing firms because they lack the necessary tools and authority to resolve failed institutions.

Also, CSBS calls for requiring the largest institutions to pre-fund the Systemic Resolution Fund that would be utilized to fund the resolution of a systemic institution. By assessing the largest institutions prior to a failure, taxpayers will not be once again forced to foot the bill for a big bank's poor business decisions.

CSBS looks forward to working with the Committee and members of Congress to create a supervisory regime best designed to protect consumers and ensure the safety and soundness of financial institutions, while maintain a level playing field for all industry participants.

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The Conference of State Bank Supervisors (CSBS) is the nationwide organization for state bank regulation, representing the bank regulators of the 50 states, the District of Columbia, Guam, Puerto Rico, and the Virgin Islands. State authorities supervise approximately 6,000 state-chartered financial institutions. Further, the majority of state banking departments also oversee mortgage providers and other financial produce providers. CSBS is also responsible for improving the quality of state bank supervision by providing performance evaluation and accreditation programs for the banking departments, as well as supervisory education and training programs for state banking department personnel.