

Statement Of  
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Committee on Financial Services  
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Chairman Frank, Ranking Member Bachus, and Members of the Committee, I appreciate this opportunity to discuss the Administration's comprehensive proposal for reforming the regulation of financial services.

The OCC supports many elements of the proposal, including the establishment of a council of financial regulators to identify and monitor systemic risk. We believe that having a centralized and formalized mechanism for gathering and sharing systemically significant information, and making recommendations to individual regulators, makes good sense.

We also support enhanced authority to resolve systemically significant financial firms. The FDIC currently has broad authority to resolve systemically significant banks in an orderly manner. But no comparable resolution authority exists for systemically significant holding companies of either banks or nonbanks. The Proposal would appropriately extend resolution authority like the FDIC's to such companies.

We also believe it would be appropriate to designate the Federal Reserve Board as the consolidated supervisor of all systemically significant financial firms. The Board already plays this role with respect to the largest bank holding companies. In the

financial crisis of the last two years, the absence of a comparable authority with respect to large securities and insurance firms proved to be an enormous problem. The Proposal would fill this gap by extending the Federal Reserve's holding company regulation to such firms. However, one aspect of the proposal goes much too far, which is to grant broad new authority to the Federal Reserve to override the primary banking supervisor on standards, examination, and enforcement applicable to the bank. Such override power would undermine the authority – and the accountability – of the banking supervisor, and we strongly oppose it.

We also support the imposition of more stringent capital and liquidity standards on systemically significant financial firms. This would help address their heightened risk to the system and mitigate the competitive advantage they could realize from being designated as systemically significant.

And we support the proposal to effectively merge the OTS into the OCC, with a phase-out of the federal thrift charter. However, it is critical that the resulting agency be independent from the Treasury Department and the Administration to the same extent that the OCC and OTS are currently independent.

Finally, we support enhanced consumer protection standards for financial services providers, and believe that an independent agency like the proposed CFPA could achieve that goal. However, we have significant concerns with some elements of the proposed CFPA, stemming from its consolidation of all financial consumer protection rulewriting, examination, and enforcement in one agency – which would completely and inappropriately divorce all these functions from the comparable safety and soundness functions at the federal banking agencies.

It makes sense to consolidate all consumer protection rulewriting in a single agency, with the rules applying to all financial providers of a product, both bank and nonbank. But we believe the rules must be uniform, and that banking supervisors must have meaningful input into formulating them. Unfortunately, the proposed CFPA falls short on both counts.

First, the rules would not be uniform because the Proposal would expressly authorize states to adopt different rules for all financial firms, including national banks, by repealing the federal preemption that has always allowed national banks to operate under uniform federal standards. This repeal of the uniform federal standards option is a radical change that will make it far more difficult and costly for national banks to provide financial services to consumers in different states having different rules – and these costs will ultimately be borne by the consumer. The change will also undermine the national banking charter and the dual banking system that has served us very well for nearly 150 years, in which national banks operate under uniform federal rules, and states are free to experiment with different rules for the banks they charter.

Second, the rules do not afford meaningful input from banking supervisors, even on real safety and soundness issues, because in the event of any disputes, the proposed CFPA would always win. That should be changed by allowing more banking supervisors on the board of the CFPA, and by providing a formal mechanism for banking supervisor input into CFPA rulemaking.

Finally, the CFPA should not take examination and enforcement responsibilities away from the banking agencies. The current banking regime works well, where the integration of consumer compliance and safety and soundness supervision provides real

benefits for both functions. Real-life examples attached to my testimony demonstrate how this works. To the extent the banking agencies have been criticized for consumer protection supervision, the fundamental problem has been with the lack of timely and strong rules – which the CFPA would address – and not the enforcement of those rules.

Moreover, moving these bank supervisory functions to the CFPA would only distract it from its most important and daunting implementation challenge: establishing an effective examination and enforcement regime for the “shadow banking system” of the tens of thousands of nonbank providers that are currently unregulated or lightly regulated, like the nonbank mortgage brokers and originators that were at the heart of the subprime mortgage problem. The CFPA’s resources should be focused on this fundamental regulatory gap rather than on already regulated depository institutions.

Appropriately modified, we think the CFPA can make an important contribution to consumer protection. Thank you.