United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

For Immediate Release
March 3, 2009

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Opening Statement of Chairman Christopher J. Dodd
"Consumer Protections in Financial Services: Past Problems, Future Solutions"

Remarks as Prepared:

Today, the Banking Committee meets for another in a series of hearings to discuss ways to modernize our financial architecture to help America grow, prosper and lead in the 21st century. This hearing will focus on critical consumer and investor protections in financial services. For the past year as I have traveled in Connecticut, my constituents have underscored the importance of rebuilding our financial system to inject tough new consumer and investor protections that have been missing or overlooked for too long. They are banking on change in this area, and I believe we must give it to them this year.

That change means, among other things, strong prohibitions against unfair, abusive and deceptive practices, fraud scams, and the like.

Because efficient and effective markets only work when all actors have good information, it also means increased accountability, disclosure and transparency to ensure that consumers and investors understand the rules of the road regarding their transactions. And it means doing these things in a way which doesn't unduly cramp the vitality, innovation and creativity which is a source of genius in our system. Striking that balance is a tall order, but that must be our charge.

The President has now made clear that regulatory modernization which protects consumers and investors in this way is a top priority for him – and Senator Shelby and I, joined by Chairman Frank and Ranking Member Bachus last week at the White House – have agreed to work toward that goal, informed by key principles outlined by the President.

It is an historic undertaking, one of the most important debates in which we have engaged here in a long time. It will be challenging, and no doubt will take twists and turns in the coming months. But I hope and expect that the process will culminate in a comprehensive regulatory modernization bill at its end. Senator Shelby and his colleagues have been partners in many such legislative efforts over the years in this committee, and I am grateful for their commitment to working on this with us.

In the last Congress, this Committee and its subcommittees held 30 hearings to identify the causes and consequences of the financial crisis at the root of our economic troubles. We looked at everything from predatory lending and foreclosures, to the risks of derivatives in the banking, security and insurance industries.

What we found was that at the heart of the problem in these areas was a single, fundamental breakdown – an almost total failure to protect consumers and investors.

By no means is this problem exclusive to financial services. Whether it is poisoned toys imported from China or meat with deadly pathogens knowingly sold to supermarkets, for too long some have been willing to cross the bright lines of basic business operation—fair treatment of the customer—to bolster their bottom line.

Nowhere was that failure starker or more catastrophic for our economy than in our housing market – where lenders, brokers and banks offered or financed an array of unsuitable mortgage products without regard for the borrower's ability to repay.

For too long, many in the industry focused solely on large profits, and ignored the major risks that accompanied them. They were willing to gamble with not only their own futures, but those of their customers, who they encouraged to take on more and more risk.

And the result is clear, with unemployment now the highest in 16 years, 8 million homes in danger of foreclosure, and some of our largest financial institutions either in ruins or at risk.

This house of cards has collapsed, and today, the Committee meets to continue our discussion on how to rebuild a stronger and more stable structure.

I pledge that over the coming months, we will rebuild the nation's financial architecture from the bottom up and put the needs of regular consumers and investors who own these firms not at the margins of our financial services system—but at its very center.

Just as a failure to protect the American people was the cause of our financial collapse, so too must our efforts to rebuild be premised on a strong foundation of consumer and investor protections.

Certainly, we have a ways to go, when mortgage brokers can charge yield spread premiums for directing customers into riskier, costlier mortgages and credit card companies can raise rates on consumers who have always paid their bills on time.

Recently, I learned of a woman named Samantha Moore from Guilford, Connecticut – a paralegal whose husband owns a small business.

Not long ago, she was three days late on a credit card payment – the first late payment in 18 years. For that seemingly minor transgression, she had her interest rate raised from 12% to 27% and her credit limit slashed from $31,400 to $4,500.

What is a family like the Moores supposed to do if they were counting on that credit card to help them through a medical crisis? That single decision could mean the difference between scraping by during a recession and a lifetime of financial catastrophe. All because a single payment after 18 years was three days late.

With the average household carrying $10,000 in revolving debt on their credit cards and millions trapped in home loans with exploding interest rates, sweeping reform of abusive credit card and mortgage lending practices will be an essential component of this Committee's financial modernization efforts.

Today, we will address broader regulatory reform questions that focus on how we treat customers of financial institutions. For instance, should bank regulators continue to have that authority? In 1994, Congress gave the Fed authority to ban abusive home mortgages – and it failed miserably. Is it time to create a new regulator whose sole focus is the fair treatment of individual customers?

Certainly, we need strong cops on the beat in every neighborhood. Fifty-two percent of subprime mortgages originated with companies that had no federal supervision whatsoever – standalone mortgage brokers and others. Who should be charged with consumer protection for these financial institutions?

Some have suggested we set up an entity modeled on the Consumer Product Safety Commission, which protects the public from products used in the home, at school, and for recreation. In this day and age, financial products are just as commonplace – and some can be as dangerous.

No one suggests that the buyer is to blame for a dangerous toaster that catches on fire or a toy for your child that is contaminated with lead. Should it be any different for the borrower who takes out a mortgage or signs up for a credit card?

I think it is a very fair question to ask. And one thing is clear: these complex financial transactions, including mortgages, can be much more dangerous than a faulty toaster. We're talking about huge financial decisions – often the most significant of a family's life, on which they may stake their life savings.

We must do everything we can to make sure they understand precisely the terms of those transactions, and their implications, and are protected from the kinds of abuses we have seen in recent years. These protections must be comprehensive and consistent across our regulatory architecture.

For too long, we've allowed a misguided belief to persist – that when you protect the customer, you stifle innovation and growth. That's a false choice.

Efficient, dynamic marketplaces don't function in spite of people like Samantha Moore. They function *because* of people like her and like millions of others who work, invest and save to send their children to school, to buy homes and live the American Dream.

If we are going to grow a more sustainable economy with a safe and sound financial architecture that supports it, we need to protect and nurture and invest in our most precious resource: the American people. That starts with the work of this Committee.