Sen. Brown Opening Statement at Banking Committee Hearing on Regulation of Regional Banks

Thursday, March 19, 2015

WASHINGTON, D.C. — U.S. Sen. Sherrod Brown (D-OH) – ranking member of the U.S. Senate Committee on Banking, Housing, and Urban Affairs – released the following opening statement, as prepared for delivery, at today's hearing entitled, "Examining the Regulatory Regime for Regional Banks."

Opening Statement

Ranking Member Sherrod Brown

Hearing: "Examining the Regulatory Regime for Regional Banks"

March 19, 2015

Thank you, Chairman Shelby, for calling this hearing to examine the regulation of regional banks, and thank you to our witnesses for being here. It is good to see all of you again.

We held a hearing last July on a similar topic. Unfortunately, it raised more questions than it provided answers.

I hope that these next two hearings will help us to advance the conversation as we work to ensure that prudential regulations for regional banks are crafted appropriately.

This is a topic that is important to me because I have seen the effects on a community when a regional bank takes excessive risks.

National City Corporation was a "super regional" bank founded in Cleveland in 1845. It weathered all the bank panics of the 19th Century and the Great Depression of the 20th. But it no longer exists today.

In 2007, National City was 9th largest U.S. commercial bank with $140 billion in assets. But less than one year later it had to be sold to PNC with the assistance of $7 billion in taxpayer dollars.

National City's downfall is a case study in management mistakes and regulatory failures. The OCC, for example, allowed the bank to buy back $3 billion of its own stock in early 2007, months before its near failure.

A Federal Reserve witness before my subcommittee in 2011 called the events at National City a "***collective failure of imagination by the banks and by the regulators themselves.***"

Even near failures have costs. Though National City didn't technically fail, 4,000 people lost their jobs. National City's management and our regulators did fail these workers and communities across my state.

Congress responded to this and the failures of other institutions by passing the Dodd-Frank Act and directing agencies to institute standards like capital, liquidity, risk management, and stress testing to lower the likelihood and the costs of large bank holding company failures.

In 2010 *American Banker* wrote that many of the powers in Title I of Dodd-Frank were not new – they were put there as a directive from Congress to the regulators to use their authorities in ways that have teeth.

That is why one bank lobbyist said, "*When the president signed the financial reform law, that was half-time. The legislators left the field and now it's time for the regulators to take over … we want to see that we don't over-regulate here.*

I agree we should not over-regulate, and so did the authors of Dodd-Frank.

We often hear that a $50 billion bank should not be treated the same way as JPMorgan.

I agree, here, too.

Dodd-Frank did not go as far as I would have liked in some respects, but in other respects it struck a pretty good balance.

It called for heightened rules for large bank holding companies, but directed regulators not to take a one-size-fits-all approach.

These rules were not meant to cover just the "Too Big to Fail" banks, nor just the "Systemically Important" ones.

They were meant to cover institutions like National City.

That is why enhanced prudential standards increase in stringency as institutions grow larger.

Regulators have proposed or implemented different rules that apply to banks with $50 billion or more in assets; rules that apply to banks with $250 billion or more in assets; and rules that apply to banks with $700 billion or more in assets.

Further, the law allows regulators the flexibility to lift the thresholds for some of these standards.

I hope that, in the process of these hearings and our discussions, we also explore the benefits and burdens of specific regulations, and whether issues are being caused by the law or its implementing regulations.

Enhanced prudential standards are important not just to respond to the last crisis, but also to prevent the next crisis.

The failure of a single large institution can create systemic risk, but so can multiple failures of similar small or mid-sized institutions.

The term "Too Big to Fail" originated from the failure of the $40 billion bank Continental Illinois in 1984. In today's dollars, it would have been a $90 billion bank.

I look forward to hearing how our witnesses are using their authority to tailor their regulations to the institutions and activities that present the most risk, while not becoming complacent and taking their eyes off of all potential sources of risk.

Our imaginations have failed us more than once when it comes to anticipating problems. We should do our best to not let it happen again.

Thank you, Mr. Chairman.

###

Press Contact

Meghan Dubyak
Rachel Petri

(202) 224-3978