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Senator Elizabeth Warren
Remarks at the AFR Dodd-Frank Fifth Anniversary Conference

As Prepared for Delivery

Thank you, Lisa, for that very kind introduction. It's a real pleasure to be here with all of you this afternoon.

I'm particularly glad to be celebrating the fifth anniversary of the Dodd-Frank Act with Americans for Financial Reform. Without AFR and the incredible work of so many people in this room, there would be no Dodd-Frank and our country would be lurching from one financial crisis to another. Thank you for all you have done.

I'm here today to say two cheers for Dodd-Frank. It would be three cheers, but there's more work to be done.

For me, the context of evaluating Dodd-Frank is how our government responded to the last major financial crisis – the Wall Street Crash of 1929. After the 1929 crash, policymakers took strong action to fundamentally change the structure of our financial system so that Wall Street couldn't push the economy over a cliff. The new rules were creative and unprecedented:

- First, a cop for Wall Street just like the cops for Main Street. The new agency – the SEC – was charged with enforcing basic rules of the market;

- Second, make it safe to put money in banks. FDIC insurance created security for families and stability for the banking system; and

- Third, banking should be boring. Glass-Steagall built a wall so that banks couldn't use government-guaranteed deposits for high-risk speculation.

And for half a century, those new rules worked. There wasn't a single serious financial crisis, and the financial sector did its part to help produce sustained, broad-based economic growth that benefitted millions of people across the country.

Then, in the 1980s, Congress and our regulators starting unwinding those time-tested rules:

- The Fed and other bank regulators looked the other way as big financial institutions invented new ways to trick their customers, first through credit cards and then through mortgages, home equity lines of credit, and many other financial products.

- Washington turned a blind eye as risks were packaged and re-packaged, magnified, and then sold to unsuspecting pension funds, municipal governments, and many others.

- The wall between high-risk trading and boring banking was punched full of holes and in the late 1990s, it was knocked down when Glass-Steagall was eventually repealed.

Not long after that, the worst crash since the 1930s hit the American economy – a crash that the Dallas Fed estimates has cost this country a collective $14 trillion.[1]

For me, the moral of this two-part story is simple: without basic government regulation, financial markets don't work. That's just an empirical fact – clearly observable in 1929 and again in 2008.

The point is worth repeating, because for too long, the conventional wisdom has been that you can be for rules, or you can be for markets, but you can't be for both. That's just wrong. Rules are not the enemy of markets. Rules are a necessary ingredient for healthy markets, for markets that create competition and innovation. Rolling back the rules or firing the cops can be profoundly anti-market.

We need rules, but not all rules promote innovative and competitive markets. So what tests should we use to make sure the rules promote healthy competition and innovation? We can start with the two principles that worked well for more than fifty years after the 1929 crash:

- First, financial institutions shouldn't be allowed to cheat people. Markets work only if people can see and understand the products they are buying, only if people can reasonably compare one product to another, only if people can't get fooled into taking on far more risk than they realize just so that some corporation can turn a quick profit and move on. That's true for families buying mortgages and for pension plans buying complex financial instruments.

- Second, financial institutions shouldn't be allowed to get the taxpayers to pick up their risks. That's true for using insured deposits for high-risk trading (and the reason we had Glass-Steagall) and it's true for letting Too-Big-to-Fail banks get a wink-and-a-nod guarantee of a government bailout.

Judged against these two principles, Dodd-Frank made real progress. Look at the first goal – "no more cheating people." Dodd-Frank took a powerful step toward honest markets with the establishment of the CFPB. Instead of a grab bag of consumer protection laws scattered among seven different agencies, none of whom had any real interest in enforcing them, Congress created a new agency that had the tools, the expertise, and the responsibility for making sure that consumer financial markets worked fairly.

This was real, structural change, and it's working. Mortgages have gotten clearer and easier to read, and the agency is fighting back against the big banks that have cheated consumers. In fact, the agency just announced that it has returned more than *ten billion* dollars to consumers who were cheated – in just four years![2]

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[1] David Luttrell, Tyler Atkinson, and Harvey Rosenblum, *Assessing the Cost and Consequences of the 2007-09 Financial Crisis and its Aftermath* (Sept. 2013), *at* http://www.dallasfed.org/research/eclett/2013/el1307.cfm.
[2] Consumer Financial Protection Bureau: By the Numbers (updated July 13, 2015).

And on the second goal – making sure that financial institutions can't push their risks off to taxpayers – Dodd-Frank made important progress as well. It helped bring back some level of market discipline through living wills and the creation of orderly liquidation authority, and it reduced system-wide risk by imposing more demanding capital and leverage standards.

Dodd-Frank built a great foundation for safer financial markets. It's worth celebrating – two long, loud cheers. More importantly, it's worth defending from those who'd like to weaken our financial markets just to rake in more profits.

But there's a lot more work to be done to complete the unfinished business of financial reform.

In the past weeks, I've discussed several steps Congress and our regulators could take to help complete that work. These steps should appeal to anyone – Republican, Democrat, Independent – who wants safer, more competitive financial markets. And in fact, in the past two months, I've introduced three bipartisan bills that would help move us in that direction. So I'll mention these three pending pieces of legislation, pieces that could help us complete the work Dodd-Frank began.

In May, I introduced the Truth in Settlements Act with Senator Lankford. Right now, our federal regulators never take big banks to trial. Instead, over and over, they end up entering into settlement agreements – and then hiding the critical details of these agreements from the public. Agencies like to trumpet that they recovered billions from big banks, but if you dig a little deeper, you find that the payments are tax deductible, or aren't payments at all, but are credits the banks can earn for actions they probably would have taken anyway. Add it all up and that big headline number is a lot lower in reality.

Our bill would shed more light on government settlements by requiring the government to disclose all the relevant details and post copies of the settlements online where anyone can read them and where researchers can analyze the deals that have been made. The bill will allow the public to hold our federal agencies accountable if they cut bad deals that are good for banks, but bad for everyone else.

In May, I also introduced the Bailout Prevention Act with Senator Vitter. In the 2008 crisis, the Fed used its emergency lending authority to provide 13 *trillion* dollars in low-cost loans to a handful of Too Big to Fail banks.[3] Think about that. It wasn't TARP or anything Congress voted on. On their own, the Fed just kept feeding money at nearly zero interest rates into a half-dozen Too Big to Fail banks.

Our bill carefully limits the Fed's ability to provide emergency lending to a giant bank that gets into trouble. It makes clear that the Fed isn't the personal piggy bank for biggest financial institutions, and forces those banks to bear the consequences of their own risk-taking.

And finally, just last week, I reintroduced the 21st Century Glass-Steagall Act with Senators McCain, King, and Cantwell. Our bill would rebuild the wall between commercial and

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[3] James Felkerson, *$29,000,000,000,000: A Detailed Look at the Fed's Bailout by Funding Facility and Recipient* (Dec. 2011), at 32 (Tbl. 16), *available at* http://www.levyinstitute.org/pubs/wp_698.pdf.

investment banking – the wall that produced a healthy financial system and sustained economic growth for half a century. The idea is simple: If banks want to engage in high-risk trading, they can go for it – but they can't get access to insured deposits and put the taxpayer on the hook for some of that risk.

These bills aren't the law – yet – but they demonstrate that it's possible to make bipartisan progress to complete the unfinished business of financial reform. I've got a Republican cosponsor on each one – and we're going to fight to turn them into law.

Of course, the big banks are fighting tooth and nail against these changes, and we saw them flex their power last December when they blew a hole in Dodd-Frank as part of the Cromnibus, so I know this isn't easy. The way I see it, we can give up or we can fight back. Me? I'm fighting back.

Before I finish, I want to touch on the latest attempt to roll back some of our critical financial rules. In Dodd-Frank, Congress directed the Fed to impose some tougher standards on banks with more than $50 billion in total assets. That covers about the forty biggest banks in the country – about one half of one percent of the 6500 banks we have in the US. The tougher standards are commonsense rules intended to make sure the biggest banks can't threaten our financial stability – things like higher capital and leverage standards, and stricter risk management requirements.

Of course, even among this group of 40 big banks, certain banks pose more risks than others. Congress acknowledged that fact and directed the Fed to tailor its tougher rules to match the risk an institution poses, asking it to look at things like size, complexity, and the types of financial activities a bank engages in.

But now these bigger banks and their allies in Congress are pressing to increase this $50 billion threshold and exempt dozens of banks from these tougher standards. Republicans on the Banking Committee recently voted unanimously to raise the threshold all the way up to $500 billion, exempting about 30 banks – which collectively hold more than four trillion dollars in assets.[4]

Keep in mind that the banks that the Republicans want to turn loose are the banks with assets between $50 billion and $500 billion. Those banks are the same size as the banks that played a key role in sparking the 2008 crisis. Countrywide had about $200 billion in assets when it started to falter; Washington Mutual had about $300 billion.[5] And though the failure of a single $50 billion bank may not be enough to cause a financial crisis, the failure of a few banks of this size – a definite possibility in a time of financial stress – would be enough to threaten our markets.[6] As Fed Governor Tarullo said last May, "if a number of these banks simultaneously

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[4] *See* Federal Financial Institutions Examination Council, Holding Companies with Assets Greater Than $10 Billion (updated Mar. 31, 2015), *at* http://www.ffiec.gov/nicpubweb/nicweb/HCSGreaterThan10B.aspx.

[5] Americans for Financial Reform, *Regulation of Regional Banks*, *at* http://ourfinancialsecurity.org/blogs/wp-content/ourfinancialsecurity.org/uploads/2015/03/Large-Regional-Bank-Presentation.pdf.

[6] *See* Senate Banking Committee Hearing, "Examining the Regulatory Regime for Regional Banks," (Mar. 24, 2015) (Statements of Prof. Simon Johnson in response to questions from Sen. Warren).

came under pressure or failed, a harmful contraction of credit availability in significant regions or sectors of the economy could ensue."[7]

Treasury Secretary Lew said last week that raising the $50 billion threshold and exempting several of these large banks from additional scrutiny would "go at the heart of some the protections that we've put in place" since the financial crisis.[8] I agree – Congress should not lift this threshold. I applaud the Secretary and the Administration for standing firm on this issue.

I'm proud to stand with AFR because of the work you have already done. But I'm proud to be here because of the work we'll do together in the future. Dodd-Frank isn't finished, and we won't end Too Big to Fail until it is.

Right now the Republicans want to roll back Dodd-Frank, returning us to the days of bubbles and buyouts. We're here to fight back.

We know what changes we need so that financial markets don't just work for powerful insiders, but so that they work for everyone. The key steps aren't complex or difficult to understand. They just take a little political courage.

Thank you again for all you do.

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[7] Governor Daniel Tarullo, *Rethinking the Aims of Prudential Regulation* (May 8, 2014), *at* http://www.federalreserve.gov/newsevents/speech/tarullo20140508a.htm.
[8] Zachary Warmbrodt, PoliticoPro (July 8, 2015), *at* https://www.politicopro.com/go/?wbid=56877.