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Remarks as Prepared for Delivery

Thank you, Americans for Financial Reform and the Roosevelt Institute for inviting me to speak today. I've been working very closely with both AFR and Roosevelt for years now, and I'm really delighted to be here.

It has been five years since the financial crisis, but we all remember its darkest days. Credit dried up. The stock market cratered. Historic institutions like Lehman Brothers and Merrill Lynch were wiped out. There were legitimate fears that our economy was tumbling over a cliff and that we were heading into another Great Depression.

We averted that grim outcome, but the damage was staggering. A recent report by the Federal Reserve Bank of Dallas estimated that the financial crisis cost us upward of 14 trillion dollars—*trillion*, with a *t*. That's $120,000 for every American household—more than two years' worth of income for the average family. Billions of dollars in retirement savings disappeared. Millions of workers lost their jobs and their sense of financial security. Entire communities were devastated. And a Census Bureau study that came out just a couple months ago shows that homeownership rates declined by 15 percent for families with young children. The Crash of 2008 changed lives forever.

In April 2011, after a two-year bipartisan enquiry, the Senate Permanent Subcommittee on Investigations released a 635-page report that identified the primary factors that led to the crisis. The list included high-risk mortgage lending, inaccurate credit ratings, exotic financial products, and, to top it all off, the repeated failure of regulators to stop the madness. As Senator Tom Coburn, the Subcommittee's ranking member, said: "Blame for this mess lies everywhere from federal regulators who cast a blind eye, Wall Street bankers who let greed run wild, and members of Congress who failed to provide oversight."

Even Jamie Dimon, the CEO of JPMorgan Chase, has emphasized inadequate regulation as a source of the crisis. He wrote this to his shareholders: "had there been stronger standards in the mortgage markets, one huge cause of the recent crisis might have been avoided."

The crash happened quickly and dramatically, and it caught our nation and apparently even our regulators by surprise. But don't let that fool you. The causes of the crisis were years in the making, and the warning signs were everywhere.

As many of you know, I spent most of my career studying the growing economic pressures on middle class families—families that worked hard and played by the rules but still can't get ahead. And I've also studied the financial services industry and how it has developed over time. A generation ago, the price of financial services—credit cards, checking accounts, mortgages, and signature loans—was pretty easy to see. Both borrowers and lenders understood the basic terms of the deal.

But by the time the financial crisis hit, a different form of pricing had emerged. Lenders began to use a low advertised price on the front end to entice customers, and then made their real money with fees and charges and penalties and re-pricing in the fine print. Buyers became less and less able to evaluate the risks of a financial product, comparison shopping became almost impossible, and the market became less efficient.

Credit card companies took the lead, with their contracts ballooning from a page and a half back in 1980 to more than 30 pages by the beginning of the 2000's. And teaser-rate credit cards—which advertised deceptively low interest rates—paved the way for teaser-rate mortgages.

When I worked to set up the Consumer Financial Protection Bureau, I pushed hard for steps that would increase transparency in the marketplace. The crisis began one lousy mortgage at a time, and there is a lot we must do to make sure there are never again so many lousy mortgages. CFPB made some important steps in the right direction, and I think we're a lot safer than we were.

But what about the other causes of the crisis?

There is no question that Dodd-Frank was a strong bill—the strongest in three generations. I didn't have a chance to vote for it because I wasn't yet in the Senate, but if I could have, I would have voted for it twice.

Even so, the law is not perfect. And so it's important to ask: Where are we now, five years after the crisis hit and three years after Dodd-Frank?

I know there has been much discussion today about a variety of issues, but I'd like to focus on one in particular.

Where are we now on the "Too Big to Fail" problem? Where are we on making sure that the behemoth institutions on Wall Street can't bring down the economy with a wild gamble? Where are we in ending a system that lets investors and CEOs scoop up all the profits in good times, but forces taxpayers to cover the losses in bad times?

After the crisis, there was a lot of discussion about how Too Big to Fail distorted the marketplace, creating lower borrowing costs for the largest institutions and competitive disadvantages for smaller ones. There was talk about moral hazard and the dangers of big banks getting a free, unwritten, government-guaranteed insurance policy.

Sure, there was talk, but look at what happened: Today, the four biggest banks are 30% *larger* than they were five years ago. And the five largest banks now hold more than *half* of the total banking assets in the country. One study earlier this year showed that the Too Big to Fail status is giving the 10 biggest US banks an annual taxpayer subsidy of $83 billion.

Wow. Who would have thought five years ago, after we witnessed firsthand the dangers of an overly concentrated financial system, that the Too Big to Fail problem would only have gotten worse?

There are many who say, “Sure, Too Big to Fail isn’t over yet, but Congress should wait to act further because the agencies still have to issue a bunch of Dodd-Frank’s required rules.” True, there are rules left to be written, but that’s because the agencies have missed more than 60 percent of Dodd-Frank’s rulemaking deadlines.

I don’t understand the logic. Since when does Congress set deadlines, watch regulators miss most of them, and then take that failure as a reason *not* to act? I thought that if the regulators failed, it was time for Congress to step in. That’s what oversight means. And that’s certainly a principle that would have served our country well prior to the crisis.

So let’s put the pieces together:

1. It has been three years since Dodd-Frank was passed, the biggest banks are bigger than ever, the risk to the system has grown, and the market distortions have continued.

2. While the CFPB has met every single statutory deadline – so we know it’s possible to get the job done – the other regulators have missed their deadlines and haven’t given us much reason for confidence.

3. The result is that the Too Big to Fail problem remains.

I add that up, and it’s clear to me: it’s time to act. The last thing we should do is wait for more crises – for another London Whale or LIBOR disgrace or robo-signing scandal – before we take action.

For that reason, I partnered with Senators John McCain, Maria Cantwell, and Angus King to offer up one potential way to address the Too Big to Fail problem—the 21st Century Glass-Steagall Act.

By separating traditional depository banks from riskier financial institutions, the 1933 version of Glass-Steagall laid the groundwork for half a century of financial stability. During that time, we built a robust and thriving middle class. But throughout the 1980’s and 1990’s, Congress and regulators chipped away at Glass-Steagall’s protections, encouraging growth of the megabanks and a sharp increase in systemic risk. They finally finished the task in 1999 with the passage of the Gramm-Leach-Bliley Act, which eliminated Glass-Steagall’s protections altogether.

The 21st Century Glass-Steagall Act would reinstate many of the protections found in the original Glass-Steagall Act. It would wall off depository institutions from riskier activities like investment banking, swaps dealing, and private equity activities. It would force some of the biggest financial institutions to break apart and eliminate their ability to rely on federal depository insurance as a backstop for high-risk activities.

In other words, the new Glass-Steagall Act would attack both "too big" and "to fail." It would reduce failures of the big banks by making banking boring, protecting deposits and providing stability to the system even in bad times. And it would reduce "too big" by dismantling the behemoths, so that big banks would still be big – but not too big to fail or, for that matter, too big to manage, too big to regulate, too big for trial, or too big for jail.

Big banks would once again have understandable balance sheets, and with that would come greater market discipline. Now sure, the lobbyists for Wall Street say the sky will fall if they can't use deposits in checking accounts to fund their high-risk activities. But they said that in the 1930's too. They were wrong then, and they are wrong now. The Glass-Steagall Act would restore the stability to the financial system that began to disappear in the 1980's and 1990's.

This is one way to deal with Too Big to Fail. I think it would work, and I'm very grateful for AFR's continued push to make it into a reality. But there are other approaches too. So what I want to know is this: how much longer should Congress wait for regulators to fix this problem? Another three months? Another three years? Until the next big bank comes crashing down?

Treasury Secretary Jack Lew recently said that if "Too Big to Fail" is still a problem at the end of the year, it might be time to consider other options. I applaud Secretary Lew for laying out a timeline, and I'd like to see other Administration officials and regulators follow suit. If Dodd-Frank gives the regulators the tools to end Too Big to Fail, great—end Too Big to Fail. But if the regulators won't end Too Big to Fail, then Congress must act to protect our economy and prevent future crises.

We should not accept a financial system that allows the biggest banks to emerge from a crisis in record-setting shape while working Americans continue to struggle. And we should not accept a regulatory system that is so besieged by lobbyists for the big banks that it takes years to deliver rules and then the rules that are delivered are often watered-down and ineffective.

What we need is a system that puts an end to the boom and bust cycle. A system that recognizes we don't grow this country from the financial sector; we grow this country from the middle class.

Powerful interests will fight to hang on to every benefit and subsidy they now enjoy. Even after exploiting consumers, larding their books with excessive risk, and making bad bets that brought down the economy and forced taxpayer bailouts, the big Wall Street banks are not chastened. They have fought to delay and hamstring the implementation of financial reform, and they will continue to fight every inch of the way.

That's the battlefield. That's what we're up against. But David beat Goliath with the establishment of CFPB and, just a few months ago, with the confirmation of Rich Cordray. David beat Goliath with the passage of Dodd-Frank. We did that together – Americans for Financial Reform, the Roosevelt Institute, and so many of you in this room. I am confident David can beat Goliath on Too Big to Fail. We just have to pick up the slingshot again.

Thank you.