Office of Phil Angelides

3301 C Street, Suite 1000, 2nd Floor, Sacramento, CA 95816, 916-448-1998 Ph, 916-446-0966 Fax

March 5, 2018

The Honorable Mike Crapo
Chairman, U.S. Senate Committee on Banking, Housing, and Urban Affairs
239 Dirksen Senate Office Building
Washington, DC 20510

The Honorable Sherrod Brown
Ranking Member, U.S. Senate Committee on Banking, Housing, and Urban Affairs
713 Hart Senate Office Building
Washington, DC 20510

Re: S. 2155

I am writing this letter to express my strong opposition to S. 2155 by Senator Crapo which would weaken the financial system safeguards and taxpayer and consumer protections put in place in the wake of the 2008 financial crisis. The provisions of the bill, particularly when coupled with the clearly expressed deregulatory agenda of the Trump Administration and its key financial regulators, will once again put us on the path of exposing American taxpayers, our financial system, and our economy to significant risk.

As Chairman of the Financial Crisis Inquiry Commission, which conducted the nation's official inquiry into the causes of the financial crisis, I am deeply troubled by the potential passage of this legislation, considering the magnitude of the economic and human damage caused by the crisis and the effectiveness of post-crisis reforms in stabilizing our financial system and economy. That the Senate is taking up this bill on the floor at this time is particularly astounding given that next week will mark the 10th anniversary of the collapse of Bear Stearns, one of the seminal events in the unraveling of our financial markets that plunged our nation into the Great Recession.

Before the financial crisis abated, the federal government and the nation's taxpayers provided trillions of dollars of financial assistance through two dozen separate programs, including the Troubled Asset Relief Program (TARP), to bail out Wall Street. Even with this historic and unprecedented government response, the consequences of the crisis were dire. Millions lost their jobs and their homes, cities and towns across the nation were devastated, and trillions of dollars in wealth were stripped away from hard working families and businesses. The aspirations of millions of Americans were crushed in the financial assault on our nation, with all too many families and regions still struggling today from the fall-out of the crisis.

Without any compelling public policy rationale – other than the deceptive guise of aiding regional and community banks – this bill now seeks to undo key bulwarks of public protection designed to avert future crises. Indeed, its provisions would put us on the road to re-creating conditions that the FCIC concluded led to the 2008 crisis. While the bill purports to be the "Economic Growth, Regulatory Relief, and Consumer Protection Act", only the "regulatory relief" portion of its title bears any relationship to reality. Like the "Commodity Futures Modernization Act of 2000", which ensured that over-the counter derivatives would remain hidden in a dark market, or the House "Financial CHOICE Act", which would eviscerate the Dodd-Frank financial reforms, S. 2155's benign name deliberately obscures its detrimental effects.

Below are just some of my specific concerns with the legislation.

First, the bill's provisions to lift the asset threshold for enhanced prudential standards and supervision from $50 billion to $250 billion would substantially reduce oversight over 25 of the nation's 38 largest banks, including institutions of over $100 billion in assets that were deemed "Too Big To Fail" in 2009. A number of financial institutions with less than $250 billion triggered the need for bailout assistance during the crisis and history has shown, time and again, that the failure of financial firms that are not among the largest mega-banks can pose systemic threats to financial stability. While the bill purports to allow the Federal Reserve to "reach back" to institutions with more than $100 billion in assets, those provisions would be legally difficult to implement, given the likelihood of financial industry litigation; undermine the very purpose of having enhanced prudential standards in place prior to the emergence of risks; and undercut the Federal Reserve's current broad authority to impose such standards.

Secondly, while existing law allows the Federal Reserve to tailor financial stability rules for banks over $50 billion in assets, this bill would now require the Federal Reserve to do so for the banks still subject to enhanced prudential standards – those with assets over $250 billion. There is legitimate concern that this change, from "may" to "shall", will be implemented to reduce scrutiny of the 13 biggest banks in our nation.

Third, the bill will weaken stress testing of major financial institutions by, among other things, reducing the timeframe for testing from semi-annually for the nation's biggest banks to "periodically", which could be as infrequently as once every three years. What public purpose could possibly be served by diminishing the understanding by regulators of how major financial institutions would fare in the event of adverse financial and economic conditions?

Fourth, as Secretary Mnuchin himself has indicated, the legislation is likely to be implemented in a manner that deregulates 10 foreign megabanks - including but not limited to firms such as Credit Suisse and Deutsche Bank - heightening the risk that those banks could infect and debilitate our nation's financial system.

Fifth, the bill would punch a new hole in leverage ratios, leading to a substantial reduction in required capital at certain large banks, a troubling reversal of the drive toward stronger capital requirements in the wake of the crisis. The need for enhanced capital at major financial institutions has been one of the areas of broadest consensus emanating from the 2008 meltdown. It should also be noted that this proposal is wholly outside the realm of the bill's stated purpose of aiding regional and community banks.

Finally, this bill begins to chip away at the post-crisis reforms made to the woeful mortgage lending standards that the FCIC found to be a primary cause of the crisis. There is no sound policy rationale or good public purpose served by exempting most financial institutions from reporting mortgage lending data which they already collect; eliminating escrow requirements for subprime loans; or giving lenders a liability shield for adjustable rate mortgages underwritten at low teaser rates.

Based on the above concerns, I urge the Senate to reject S. 2155. Thank you for your consideration

Sincerely,

Phil Angelides
Chairman, Financial Crisis Inquiry Commission (2009-2011)