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Press Center

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WASHINGTON – In an op-ed piece appearing in The Hill today, Deputy Secretary of the Treasury Neal S. Wolin outlined the case for the creation of the Consumer Financial Protection Agency. To read the piece online: http://thehill.com/op-eds/consumer-protection-agency-would-stop-companies-race-to-the-bottom-2009-07-22.html. The text of the piece follows:

Consumer protection agency would stop companies' race to the bottom

By Neal Wolin

On June 17, President Obama unveiled a comprehensive plan to modernize our financial regulatory system and address the gaps and weaknesses that helped produce the worst financial crisis since the Great Depression.

The debate over the president's proposed reforms has grown lively, as it should. On the details of a reform package as large as the one we have presented, reasonable people can disagree. But there should be no disagreement that fundamental reform is urgently needed.

Over the past two years, ordinary Americans have suffered too much, trust in our financial system has been too badly shaken, and our economy has been brought too close to the brink for us to let this opportunity pass.

The administration welcomes the commitment of many in Congress to pass regulatory reform legislation by the end of the year and we are moving aggressively to help meet that goal. Before the House adjourns, Treasury will have sent legislation to Capitol Hill on every piece of the reform package.

As every American now knows, the financial crisis had many causes, including the widespread use of poorly understood financial instruments and irresponsible, shortsighted and excessive risk-taking at financial institutions. These problems were preventable. In the years leading up to this crisis, our regulatory system failed us.

One major failing was that, while we have many regulators, none was charged with looking across the system as a whole, identifying weaknesses, coordinating among agencies, and asking what might go wrong.

That's why we have proposed a Financial Services Oversight Council, composed of the heads of each of the main financial regulatory agencies. Collectively, these regulators will take a system-wide perspective and report to Congress each year on the emerging risks they see.

At the same time, key financial institutions -- including some of the largest, most interconnected firms -- were not effectively supervised. While various regulators were responsible for supervising particular subsidiaries, no one was taking a hard look at some of these institutions as a whole.

This problem cannot be solved by a council. The regulation of the most interconnected financial institutions and critical financial systems requires tremendous institutional capacity and accountability. We must leave no room for doubt about who is responsible for supervising them. The Federal Reserve is the only regulatory body with the experience and with the broad and deep knowledge of the capital markets that the task requires. You cannot supervise financial holding companies by committee.

Another failing of our regulatory system is that no agency has consumer protection as its primary mission. The current approach invites firms to choose the weakest regulator and allows non-banks like mortgage brokers, consumer credit companies and payday lenders to escape federal supervision almost entirely. The abuses in the mortgage market are tragic and well known -- and played a central role in precipitating the crisis.

That's why we've proposed the establishment of a Consumer Financial Protection Agency. The CFPA would be responsible for overseeing banks and non-banks alike -- leveling the playing field and eliminating the "race to the bottom" among firms and regulators.

Some have argued that you cannot separate responsibility for consumer protection from the responsibility for safety and soundness -- even claiming that an independent consumer protection agency would "contradict" the goals of safety and soundness. That argument simply does not hold water.

In the first place, we reject the notion that profits based on unfair practices can ever be considered sound.

In the second place, there are few -- if any -- realistic examples of a true conflict between consumer protection and safety and soundness. And there are no conflicts that could not easily be resolved. Our proposal requires a robust exchange of information between the CFPA and the safety and soundness regulators, and we support further efforts to ensure coordination.

Separating consumer protection examinations from safety and soundness examinations does not cause problems. What does cause problems is separating consumer protection rule-writing from enforcement and supervision, as we do today. That separation deprives the rule-writer of market information and causes the rule-writer and the supervisor to point fingers instead of acting.

Critics have also claimed that establishing a consumer protection agency will stifle innovation. Quite the contrary, our proposed legislation explicitly charges the CFPA with preventing abusive and unfair practices and, at the same time, helping to ensure that customers benefit from efficiency, innovation and access to financial services.

The agency will not limit consumers' ability to choose the products they want. But it will make it harder to sell consumers products that they don't understand and cannot afford.

We reject the false choice between consumer protection and innovation. Americans deserve a financial system that both fosters innovation and provides strong consumer protections.

Taken together, our proposals for strengthening capital and liquidity requirements, bringing key markets and activities like securitization and derivatives trading under the regulatory umbrella, reducing reliance on credit rating agencies -- and much more -- will produce a financial system that is safer, stronger and more trustworthy. These proposals represent the most extensive overhaul of our regulatory regime in decades.

The moment demands nothing less. Across the country, millions of Americans have lost their jobs, families have lost their homes and shelved retirement plans, and small businesses have shut down. Even as we edge toward economic recovery, we owe it to every American to fix the problems that got us here.

We must act, and we must act now.

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