

Remarks on Financial Regulatory Reform and Consumer Protection Legislation *January 21, 2010*

Good morning, everybody. I just had a very productive meeting with two members of my Economic Recovery Advisory Board: Paul Volcker, who's the former Chair of the Federal Reserve Board, and Bill Donaldson, previously the head of the SEC. And I deeply appreciate the counsel of these two leaders and the board that they've offered as we have dealt with a broad array of very difficult economic challenges.

Over the past 2 years, more than 7 million Americans have lost their jobs in the deepest recession our country has known in generations. Rarely does a day go by that I don't hear from folks who are hurting. And every day, we are working to put our economy back on track and put America back to work. But even as we dig our way out of this deep hole, it's important that we not lose sight of what led us into this mess in the first place.

This economic crisis began as a financial crisis, when banks and financial institutions took huge, reckless risks in pursuit of quick profits and massive bonuses. When the dust settled and this binge of irresponsibility was over, several of the world's oldest and largest financial institutions had collapsed or were on the verge of doing so. Markets plummeted, credit dried up, and jobs were vanishing by the hundreds of thousands each month. We were on the precipice of a second great depression.

To avoid this calamity, the American people, who were already struggling in their own right, were forced to rescue financial firms facing crises largely of their own creation. And that rescue, undertaken by the previous administration, was deeply offensive, but it was a necessary thing to do, and it succeeded in stabilizing the financial system and helping to avert that depression.

Since that time, over the past year, my administration has recovered most of what the Federal Government provided to banks. And last week, I proposed a fee to be paid by the largest financial firms in order to recover every last dime. But that's not all we have to do. We

have to enact commonsense reforms that will protect American taxpayers and the American economy from future crises as well.

For while the financial system is far stronger today than it was 1 year ago, it's still operating under the same rules that led to its near collapse. These are rules that allowed firms to act contrary to the interests of customers, to conceal their exposure to debt through complex financial dealings, to benefit from taxpayer-insured deposits while making speculative investments, and to take on risks so vast that they posed threats to the entire system.

That's why we are seeking reforms to protect consumers. We intend to close loopholes that allowed big financial firms to trade risky financial products, like credit default swaps and other derivatives without oversight, to identify system-wide risks that could cause a meltdown, to strengthen capital and liquidity requirements to make the system more stable, and to ensure that the failure of any large firm does not take the entire economy down with it. Never again will the American taxpayer be held hostage by a bank that is too big to fail.

Now, limits on the risks major financial firms can take are central to the reforms that I've proposed. They are central to the legislation that has passed the House under the leadership of Chairman Barney Frank and that we're working to pass in the Senate under the leadership of Chairman Chris Dodd. As part of these efforts, today I'm proposing two additional reforms that I believe will strengthen the financial system, while preventing future crises.

First, we should no longer allow banks to stray too far from their central mission of serving their customers. In recent years, too many financial firms have put taxpayer money at risk by operating hedge funds and private equity funds and making riskier investments to reap a quick reward. And these firms have taken these risks while benefiting from special financial privileges that are reserved only for banks.

Our Government provides deposit insurance and other safeguards and guarantees to firms that operate banks. We do so because a stable and reliable banking system promotes sustained growth and because we learned how dangerous the failure of that system can be during the Great Depression.

But these privileges were not created to bestow banks operating hedge funds or private equity funds with an unfair advantage. When banks benefit from the safety net that taxpayers provide, which includes lower cost capital, it is not appropriate for them to turn around and use that cheap money to trade for profit. And that is especially true when this kind of trading often puts banks in direct conflict with their customers' interests.

The fact is, these kinds of trading operations can create enormous and costly risks, endangering the entire bank if things go wrong. We simply cannot accept a system in which hedge funds or private equity firms inside banks can place huge, risky bets that are subsidized by taxpayers and that could pose a conflict of interest. And we cannot accept a system in which shareholders make money on these operations if the bank wins, but taxpayers foot the bill if the bank loses.

It's for these reasons that I'm proposing a simple and commonsense reform, which we're calling the "Volcker rule," after this tall guy behind me. Banks will no longer be allowed to own, invest, or sponsor hedge funds, private equity funds, or proprietary trading operations for their own profit, unrelated to serving their customers. If financial firms want to trade for profit, that's something they're free to do. Indeed, doing so responsibly is a good thing for the markets and the economy. But these firms should not be allowed to run these hedge funds and private equities funds while running a bank backed by the American people.

In addition, as part of our efforts to protect against future crises, I'm also proposing that we prevent the further consolidation of our financial system. There has long been a deposit cap in place to guard against too much risk being

concentrated in a single bank. The same principle should apply to wider forms of funding employed by large financial institutions in today's economy. The American people will not be served by a financial system that comprises just a few massive firms. That's not good for consumers; it's not good for the economy. And through this policy, that is an outcome we will avoid.

My message to Members of Congress of both parties is that we have to get this done. And my message to leaders of the financial industry is to work with us, and not against us, on needed reforms. I welcome constructive input from folks in the financial sector. But what we've seen so far, in recent weeks, is an army of industry lobbyists from Wall Street descending on Capitol Hill to try and block basic and commonsense rules of the road that would protect our economy and the American people.

So if these folks want a fight, it's a fight I'm ready to have. And my resolve is only strengthened when I see a return to old practices at some of the very firms fighting reform and when I see soaring profits and obscene bonuses at some of the very firms claiming that they can't lend more to small business, they can't keep credit card rates low, they can't pay a fee to refund taxpayers for the bailout without passing on the cost to shareholders or customers. That's the claims they're making. It's exactly this kind of irresponsibility that makes clear reform is necessary.

And we've come through a terrible crisis. The American people have paid a very high price. We simply cannot return to business as usual. That's why we're going to ensure that Wall Street pays back the American people for the bailout. That's why we're going to rein in the excess and abuse that nearly brought down our financial system. That's why we're going to pass these reforms into law.

Thank you very much, everybody.

NOTE: The President spoke at 11:34 a.m. in the Diplomatic Reception Room at the White House.

Remarks to the United States Conference of Mayors January 21, 2010

Thank you very much. Please have a seat. Have a seat. Well, welcome to the White House, everybody. And let me, first of all, say what a outstanding job that the Vice President has done, not just on a whole range of issues in this administration, but in working with the mayors to make sure this Recovery Act works the way it should. So please give Joe Biden a big round of applause.

A couple of other acknowledgements I have to make: First of all, I want to say congratulations to Elizabeth Kautz, the new president. Congratulations. Give Elizabeth a big round of applause. I have to acknowledge my own mayor, Mayor Richard Daley, for the outstanding work he's done in Chicago. I want to say thank you to Joe Riley of Charleston, not only for creating one of the greatest—helping to make one of the greatest cities in the country bloom, but also for giving us David Agnew. So give him a big round of applause. Mayor John Hickenlooper of Denver, who also is running for the Governor of Colorado; I hope you all talk to him still even when he becomes Governor. And I've got to acknowledge Mufi Hannemann because he was such a great host for me and my family when we were there in Honolulu. So thank you, Mufi. I have to say, Rich, the weather was a lot better—[laughter]—in Honolulu. I just want to let you know. [Laughter]

Now, I know all of you met the First Lady yesterday to begin an important national discussion on our national childhood obesity epidemic. I hate following my wife. [Laughter] She's more charming, smarter, tougher, better looking. But I am looking forward to a productive discussion with all of you on the urgent need to create jobs and move our metropolitan areas forward.

Now, I always enjoy meeting with mayors because it reminds me of where I got my start, working with folks at the local level, doing our best to make a real impact on the lives of ordinary Americans, and that's what each of you does every single day. You're the first interaction citizens have with their government when

they step outside every morning. The things that make our cities work and our people go—transit and public safety, safe housing, sanitation, parks, recreation—all these tasks fall to you. It was President Johnson who once said: "When the burdens of the Presidency seem unusually heavy, I always remind myself it could be worse. I could be a mayor." [Laughter]

So I—it's why we organized this meeting today. [Laughter] I look at all of you and I say, I'm doing fine. [Laughter] It's just not easy being a mayor. But rarely, if ever, has it been more difficult than it is today. Your constituents are feeling the pain of the greatest economic crisis since the Great Depression, not to mention an economy that wasn't working for a lot of them long before this particular crisis hit.

Many have lost jobs; many have lost their health care; some may have even lost their homes. And they're looking to you and all of us to regain some sense of economic security. And just when they need more from you, you're stuck with falling revenues, leaving you with impossible choices that keep mounting up—putting projects on hold or having to furlough key employees. I know some of you have had the heartbreak of laying folks off. I also know that each and every one of you is 100 percent resolved to pick your city up and move it forward.

And that's why, even as we worked to rescue our broader economy last year, we took some steps to help. We cut taxes, as Joe mentioned, for workers and small businesses. We extended unemployment insurance and health benefits for those who lost their jobs. We provided aid to local governments so you could keep essential services running and keep cops and firefighters and teachers, who make your cities safe places to grow and to learn, on your payroll.

We invested in proven strategies like the COPS program and the Byrnes Grants that you rely on to bring down crime and boost public safety. We funded and awarded more