Dodd Denounces Pace of Banking Overhaul

New York Times
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February 4, 2010

WASHINGTON — Executives at Goldman Sachs and JPMorgan Chase expressed misgivings on Thursday about the Obama administration's new proposals to restrict the size and risk-taking of the country's largest financial institutions.

Their comments, before the Senate Banking Committee, appeared to further complicate the challenge facing the panel's chairman, Christopher J. Dodd, Democrat of Connecticut. For months, Mr. Dodd has been leading closed-door negotiations over a bill to overhaul the nation's financial regulations, and on Thursday he expressed dismay at how long the process was taking.

"The fact is, I am frustrated, and so are the American people," Mr. Dodd said at the start of the hearing, adding that few of the rules of Wall Street had changed, nearly two years after the collapse of Bear Stearns at the inception of the financial crisis.

Mr. Dodd said the White House was "on the right track" with its new ideas but warned of difficulty ahead.

"The refusal of large financial firms to work constructively with Congress on this effort borders on insulting to the American people, who have lost so much in this crisis," he said.

He added that the financial services industry had sent "an army of lobbyists whose only mission is to kill the common-sense financial reforms the public demands."

Only two days earlier, Mr. Dodd had sounded a different note when Paul A. Volcker, the former Federal Reserve chairman, testified on the two proposals he has championed. One would ban deposit-taking banks from proprietary trading — making market bets using their own money — and from owning hedge funds or private equity funds. The other would limit industry consolidation by capping the market share of a wide range of bank liabilities, not just deposits.

Barry L. Zubrow, chief risk officer and executive vice president of JPMorgan Chase, called the first proposal a "divergence from the hard work being done" by lawmakers and regulators to address the causes of the financial crisis.

"The activities the administration proposes to restrict did not cause the financial crisis," he said. Bear Stearns, Lehman Brothers and Merrill Lynch failed because of "excessive exposure to real estate risk," while companies like Wachovia, Washington Mutual, Countrywide Financial and IndyMac were crippled by defaults on subprime mortgages, he said.

He said that regulators already had authority to restrict the use of insured deposits to finance the kind of trading the White House wants to ban. Such a ban, he said, would make borrowing more expensive, "with no commensurate benefit in reduced systemic risk."

Mr. Zubrow added that “artificially capping liabilities” of banks would hinder their ability to make loans or invest in government bonds. “Capping the scale and scope of healthy financial firms cedes competitive ground to foreign firms and to less regulated, nonbank financial firms — which will make it more difficult for regulators to monitor systemic risk,” he said. “It would likely come at the expense of economic growth at home.”

E. Gerald Corrigan, a managing director at Goldman Sachs, was more measured in his criticisms. But he urged the senators to distinguish between proprietary trading and hedging and risk-management activities driven by the interests of clients — which he called “natural activities of banks and bank holding companies.”

He also said the financial risks associated with ownership of hedge funds and private equity funds “can be effectively managed by means short of outright prohibition,” including tough oversight.

John S. Reed, a former chairman of Citigroup, often mentioned as an example of an institution considered too big to fail, offered a different perspective. Mr. Reed, who has been supportive of Mr. Volcker’s ideas, told the senators, “The industry should be compartmentalized so as to limit the propagation of failures and also to preserve cultural boundaries.”

He also expressed support for a separate consumer financial protection agency that would regulate services like credit cards, mortgages and debt collection — a proposal that was part of a reform bill that the House passed in December, but has faced strong opposition in the Senate.

Two scholars who appeared before the committee also clashed in their views. Hal S. Scott, professor of international finance systems at Harvard Law School, said the Volcker proposals were too broad and that the banking reforms required international coordination.

But Simon Johnson, a former chief economist of the International Monetary Fund who now teaches at the M.I.T. Sloan School of Management, said “the Volcker rules do not go far enough,” urging a cap on bank assets as a percentage of gross domestic product.