Oral Testimony
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Good afternoon, Chairman Frank, Ranking Member Bachus and Members of the Committee. Thank you for the opportunity to testify today.

When I testified here two months ago, my remarks concentrated on addressing real problems underlying the financial crisis. In my written testimony today, I debunk the myth of regulatory arbitrage by the industry. In my brief remarks here this afternoon, I would also like to emphasize that we will not solve the potential problems of tomorrow by merging regulatory agencies. There are five reasons why consolidation would neither solve those problems, nor promote efficiency, especially if the thrift charter is preserved.

First, as you know, the OTS conducts consolidated supervision of thrifts and their holding companies. Although I do not believe the OTS is the proper regulator for systemically important conglomerates, I think it makes perfect sense for the agency to continue to supervise thrift holding companies, particularly for the many local consumer and community lenders across America who should not be asked to bear the cost and inefficiency of separate holding company regulation by the Federal Reserve Board.

Although larger thrifts tend to get the headlines, the overwhelming majority of thrifts are small, conservative lenders that offer home mortgages, car loans and other day-to-day financial services to people in cities, towns, suburban and rural areas across

America. Quite a few are mom-and-pop mutual institutions — much like the Bailey Building & Loan in the movie "It's a Wonderful Life" — that have been integral parts of their communities for decades. They did not contribute to the financial crisis and they should not have to pay for it.

The health of the financial services industry is improving but by no means robust. The transition costs of thrifts converting to a different supervisor and a separate holding company regulator would be an unnecessary burden at a difficult time.

My second point also relates to the fact that there is no efficiency to be gained by merging regulatory agencies that do not fit together. Currently, thrifts report their financial status to the OTS through quarterly Thrift Financial Reports, while banks file Call Reports. Under consolidation proposals, either thrifts would need to spend money to overhaul their financial reporting systems, or the consolidated agency would need to operate and maintain two different reporting systems. Either approach would undercut efficiency.

The third point is that trillion-dollar mega-banks have almost nothing in common with small community thrifts. If these different types of businesses were supervised by a single regulator, the needs of the community-oriented majority could be too often overlooked by a bureaucracy focused on the institutions that posed the greatest risk to the financial system.

A fourth point is that multiple viewpoints among regulators foster better decision-making. OTS's leadership on banning unfair credit cards practices is just one example. Remember that countries with a single, monolithic bank regulator fared no better than the U.S. during the financial crisis.

My fifth and final point dovetails with the first two: consolidating agencies would take years, cost the industry millions of dollars and generate upheaval in the day-to-day supervision of financial institutions. All of this would be done to achieve a force-fit of fundamentally different agencies that regulate fundamentally different institutions — in effect, trying to pound a square peg into a round hole — with no efficiencies or other benefits for taxpayers, consumers or the industry.

To reiterate my remarks to this Committee two months ago, the proposed consolidation would not address the problems that caused the financial crisis, or could cause the next one.

Thank you again, Mr. Chairman, I am happy to respond to your questions.