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The White House

Office of the Press Secretary

For Immediate Release

January 21, 2010

Remarks by the President on Financial Reform

Diplomatic Reception Room

11:34 A.M. EST

THE PRESIDENT: 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 two years, more than seven 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 common-sense 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 one 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 defaults 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.

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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 common-sense 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 common-sense 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.

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.

END

11:42 A.M. EST



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