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TO THE
HOUSE COMMITTEE ON
CONSUMER PROTECTION AND COMMERCE

THE TWENTY-SEVENTH STATE LEGISLATURE
REGULAR SESSION OF 2013

Wednesday, March 27, 2013
4:00 p.m.

TESTIMONY ON H.C.R. No. 138/H.R. No. 108
REQUESTING THE UNITED STATES CONGRESS TO TAKE ACTION REGARDING THE SEPARATION OF COMMERCIAL AND INVESTMENT BANKING FUNCTIONS THROUGH THE REINSTATEMENT OF THE GLASS-STEAGALL ACT OF 1933 OR SIMILAR LEGISLATION.

THE HONORABLE ANGUS L. K. MCKELVEY, CHAIR,
AND MEMBERS OF THE COMMITTEE:

My name is Iris Ikeda Catalani, Commissioner of Financial Institutions (“Commissioner”), providing comments on behalf of the Department of Commerce and Consumer Affairs (“DCCA") on House Concurrent Resolution No. 138 Requesting Congress to take action on reinstatement of the Glass-Steagall Act.

The resolution seeks to urge Congress to reinstating the Glass-Steagall Act of 1933 as it is believed the repeal of this Act in 1999 may have contributed to the financial bubble and recent world-wide recession. The portions left of the Glass-Steagall Act prohibited insured banks from underwriting or dealing in securities. However, both before and after 1999, banks were permitted to trade (that is, buy and sell) bonds and other fixed-income securities for their own account. The reinstatement of the Glass-Steagall Act was discussed at the 112th Congress and did not pass. The following is a compilation of the failure of the largest financial institutions that led to the discussion of reinstating the Glass-Steagall Act.

- Bear Stearns, Lehman Brothers, Goldman Sachs, and Merrill Lynch — four of the institutions at the heart of the crisis — were pure investment banks that had never crossed the line into commercial banking.
- AIG was an insurance company.
- New Century Financial was a real estate investment company.
- Wachovia and Washington Mutual (WAMU) were commercial banks who got in trouble by making risky loans to homeowners. These banks were closed by the bank regulators.
- Bank of America got into trouble when it was forced to purchase Countrywide Financial (by the Federal Reserve) which was a large mortgage lender who made risky loans.

- J.P. Morgan and Wells Fargo are two large banks with big investment banking arms which resisted taking government capital bailout. These banks also made risky loans to homeowners which led to their financial troubles.

Federally regulated banks did make bad loans during the period of 2005-2009 which may be a factor in the recession. Banks were authorized by the Federal Reserve Bank to bundle the risky homeowner loans with conventional loans to create these toxic securities in the shadow banking system. However, the bulk of the money that flowed through the shadow banking system did not come from government-insured bank deposits. As we see in the above examples, the money came from money market funds, hedge funds, pension funds, insurance companies, foreign banks and foreign central banks.

Thank you for the opportunity to provide comments on this House Concurrent Resolution No. 138. I would be pleased to respond to any questions you may have.