AFR Americans for Financial Reform

April 14, 2017

United States Senate Banking Committee
Dirksen Senate Office Building
Washington, DC 20510

To Whom It May Concern:

We, the thirty-one undersigned organizations, are writing this letter in response to the Senate Banking Committee's request for proposals to foster and improve economic growth. Our purpose in submitting this letter is to urge the Committee to reject any measures which weaken or remove controls on irresponsible financial practices in the name of supposed benefits to economic growth. Hard-won experience demonstrates that such benefits, if they occur, are short-term and fleeting, while the harm done to long-run economic growth and community well-being by financial exploitation is massive and lasting.

The experience of the Global Financial Crisis that began in 2008 vividly demonstrates the damage done by the inadequate regulation of financial institutions and markets. The experiences of our members and constituents give us direct knowledge of the devastation created by the financial crisis and the ways in which predatory lending practices can drain money out of local communities.

The 2008 financial crisis was driven by multiple failures in government oversight. Federal banking regulators failed to exercise their authority to protect consumers from exploitative loans, and even used their pre-emption authority to block state efforts at consumer protection. Regulators of both commercial and investment banks also permitted excessive and risky borrowing by "too big to fail" financial institutions, which they were unable to pay back without government assistance. In the early stages of the crisis, banking institutions under Federal supervision were even permitted to increase their leverage by returning tens of billions in capital to stockholders, money that was later replaced by taxpayer bailouts. Federal securities regulators permitted numerous abuses in securities markets, including deceptive and fraudulent practices in the structuring and sales of mortgage-backed "toxic assets" that caused devastating harm to both investors and the broader financial system.

Based on estimates from non-partisan sources such as the Dallas Federal Reserve and the Government Accounting Office, the financial crisis cost from $6 to $14 trillion in lost economic output alone.[1] This does not incorporate the full human cost of millions of jobs lost and the millions of families who lost their homes due to foreclosure.[2] Any policy that makes such

[1] United States Government Accountability Office, "Financial Regulatory Reform: Financial Crisis Losses and The Potential Impact of the Dodd-Frank Act", GAO 13-180, January, 2013. Luttrell, David, Tyler Atkinson and Harvey Rosenblum, "How Bad Was It? The Costs and Consequences of the 2007-2009 Financial Crisis and Its Aftermath", Federal Reserve Bank of Dallas Staff Paper No, 20, July, 2013.

[2] Americans for Financial Reform, "Costs of the Crisis", Briefing Paper, Updated July 2015.

devastating outcomes more likely in the name of a temporary boost in revenues or profits for financial institutions must be rejected by your committee.

While the financial crisis is the most dramatic recent example of the short-sighted nature of attempting to spur economic growth through financial deregulation, it is far from the only one. In our communities we see many other examples of practices that deceive or exploit ordinary working families for the benefit of financial insiders. The list of such practices is long. Payday lending can entrap borrowers in a "debt trap" cycle of endlessly increasing interest payments.[3] Hedge and private equity funds engage in deceptive practices in order to charge excessive fees to pension funds seeking fair investment treatment.[4] As young people become increasingly reliant on student loans to pay for college, they become more vulnerable to illegal practices by unscrupulous student loan servicers and for-profit colleges that contribute to default and delinquency and steer them into excessively costly and sometimes predatory student loans.[5] Small business owners seeking to grow and create jobs are being misled into financing with triple-digit interest rates, leading to business failure.[6]

These are only a few examples. Federal financial regulatory agencies, ranging from the Consumer Financial Protection Bureau to the Securities and Exchange Commission, are crucial in preventing these kinds of exploitation and in winning redress for consumers and investors when they have occurred.

When they are not properly checked, exploitative financial practices funnel money from working and middle class Americans to some of the wealthiest people in our society, thus increasing economic inequality. Extensive academic evidence shows that when economic inequality becomes excessive, long-run economic growth slows.[7] Income inequality has been growing in America for decades, and it is critical to avoid deregulatory steps that will further accelerate the decline of our middle class.

The complexity of the modern financial system offers insiders numerous opportunities to exploit vulnerable borrowers and investors, even some who may believe themselves sophisticated. The American people rely on you to support a financial regulatory system that protects all of us from

[3] Consumer Financial Protection Bureau, "CFPB Data Point: Payday Lending", the CFPB Office of Research, March, 2014.
[4] Securities and Exchange Commission, "Blackstone Charged With Disclosure Failures", SEC Press Release 2015-235, October 7, 2015.; New York State Department of Financial Services, "State Comptroller-Managed Common Retirement Fund Pays High Fees Year After Year for Poor Hedge Fund Performance and Lacks Transparency on Costs of Other Alternative Investments", October 17, 2016.
[5] Consumer Financial Protection Bureau, "CFPB Sues Nation's Largest Student Loan Company Navient for Failing Borrowers at Every Stage of Repayment", CFPB Press Release, January 18, 2017. Consumer Financial Protection Bureau, "CFPB Wins Default Judgment Against Corinthian Colleges for Engaging in a Predatory Lending Scheme", CFPB Press Release, October 28, 2015.
[6] Opportunity Fund, "Unaffordable and Unsustainable: The New Business Lending On Main Street", Opportunity Fund Research Report, May, 2016.
[7] For a review of the literature see Boushey, Heather and Carter Price, "How Are Economic Inequality and Growth Connected?", Washington Center for Equitable Growth, October, 2014.

destructive financial practices. Unlike Wall Street, the ordinary people who rely on the financial system do not have the funds to hire an army of lobbyists to press for changes in the rules. We urge you to avoid supporting any measures which claim to enhance economic growth when they in fact threaten the long-term economic security of working Americans by facilitating harmful and exploitative financial practices.

Thank you for your attention to this letter.

Sincerely,

AFL-CIO
Accion Chicago
American Federation of State, County and Municipal Employees (AFSCME)
Americans for Financial Reform
Allied Progress
California Reinvestment Coalition
Center for Global Policy Solutions
Consumer Federation of America
Consumers Union
CUP (Communities United for People)
Dominican Sisters of Hope
Empire Justice Center
Institute for Policy Studies, Global Economy Project
Main Street Alliance
Massachusetts Communities Action Network
Mercy Investment Services, Inc.
NAACP
National Association of Consumer Advocates (on behalf of its low income clients)
National Consumer Law Center
National Fair Housing Allowance
New Economy Project
New Jersey Citizen Action
Opportunity Fund
Public Citizen
Sisters of St. Dominic of Caldwell, NJ
The Institute for College Access & Success
Ursuline Sisters of Tildonk, U.S. Province
U.S. PIRG
Virginia Organizing
West Virginia Center on Budget and Policy
Woodstock Institute