15th Anniversary Lehman Collapse Conference

Wednesday, September 13, 2023, 9:30am – 5pm

Welcome and Opening Remarks

Dennis Kelleher, Better Markets

Welcome, everyone. I'm Dennis Kelleher. I'm President and CEO of Better Markets. Thanks for joining us for the conference on the 15th anniversary of the collapse of Lehman Brothers and the onset of the 2008 Global Financial Crisis.

During that crisis every major Wall Street financial institution, but Lehman Brothers was bailed out, because policymakers believed they were so big, interconnected and important that if they crashed into bankruptcy like Lehman did, the entire financial system would have collapsed, and that would have caused the second Great Depression. That's why those financial giants are called Too-Big-To-Fail. Even with the bailouts, the damage inflicted on the country, on hardworking everyday Americans who had nothing to do with causing the crash was devastating. Numbers will never adequately capture the suffering of 10s of millions of Americans from coast to coast. But they do give a sense of the scale of the damage. Better Markets did a study that showed that the 2008 crash cost the country more than $20 trillion in lost GDP. And one study put the high watermark of the bailouts at $29 trillion. That's trillion with a T. More than 25 million Americans were thrown out of work and 16 million foreclosures were filed. The number of homes in America that were underwater, meaning worth less than their mortgages, skyrocketed to almost 40%. Savings, educations, retirements evaporated, and along with them dreams and too often hope. Those were the innocent American victims of an unregulated and unpoliced financial system. And that's why, those people are why, it is so important to remember the collapse of Lehman Brothers to remember the financial crash, and to remember the ongoing challenges and dangers of Too-Big-To-Fail. And that's why today we have experts who will address the crash, Too-Big-To-Fail, financial reform, and the unfinished agenda to protect the American people.

But before I get to the program, a bit of background. For those of you who may not know us, Better Markets is a 501 C three nonprofit that I co-founded with Mike Masters in October of 2010. The Dodd Frank Financial Reform and Consumer Protection Law had been signed by President Obama just a few months earlier, on July 21, 2010. It was intended to end Too-Big-To-Fail and make sure there were no more Lehman crashes. But the financial industry was already fighting to win in the regulatory process, what it had lost in the legislative process. Well, most people understand the legislative process, and many have seen the Schoolhouse Rock video, I'm just a bill. Few outside of the industry are aware or understand the regulatory process. But the regulatory process is where and how a law becomes a reality or not. And that's because very few laws are self-executing. Almost all end up going through a complicated rulemaking maze that is an intimidating if not impenetrable process. It is not user friendly. It is not welcoming of public participation. And it is not easy for the media to cover. That was the case for the Dodd Frank financial reform law passed in the shadow of Lehman Brothers collapse. It actually required something like 400 rules to be proposed, considered, finalized, implemented, interpreted, enforced, and often litigated. Financial stability, ending Too-Big-To-Fail and bailouts, protecting investors and almost everything else and the Dodd Frank Act dependent on this regulatory process. Making matters worse, that process is overwhelmingly dominated by the industry that is supposed to be regulated. They typically seek to weaken gut or kill virtually any regulation unless it is of their competitors. Of course, that's not what they say. Indeed, they say the opposite. But that nonetheless, is what their army of lawyers, lobbyists and sundry allies are doing day in and day out, often in the dark corners of Washington DC.

Frankly, that should surprise no one. No, not because they are evil. It's because they are profit maximizing private companies, and they view rules, even those related to investor protection, market integrity, and financial stability as costs that reduce profits, and importantly, executive bonuses. As rational business people, they're just trying to profit maximize, and unfortunately, weakening and killing rolls that would be good for everyone else can be very profitable for financial firms. Adding insult to injury, they expertly dress up their self interest in lofty but baseless public-spirited claims that cannot withstand transparency or scrutiny in the light of day. And that's why Better Markets was founded, to be a substantive counterweight to those claims, and to fight throughout the regulatory and policy making process for the interest of everyday hardworking Americans.

Today our goals are to discuss those key issues and thoughtful and thought-provoking presentations and panel discussions. I hope this will ignite a renewed focus on the many important issues that touch the lives and livelihoods of all Americans. For those who want to know more than we're able to cover today, we have put on our conference webpage and on our website, www.bettermarkets.org. Not only the agenda and biographies of all the participants, but also a list of selected reference materials, including the key books about the 2008 crash, and what's happened since then. So please refer to the website for them. Now, let me quickly review the agenda and some of the coming highlights.

First, we're honored to begin today with Senator Elizabeth Warren, who I will introduce shortly. She will be followed by a keynote address by Martin Wolf, the Chief Economics c\Commentator at the Financial Times. Then our kickoff panel features Bill Cohen, who was an investment banker for more than 10 years, as well as a journalist and author of many bestselling books, including of *House of Cards*, which I'm going to show here, maybe not on the rise and fall of Bear Stearns, which crashed a few months before Lehman Brothers. Professor Jennifer Taubes also on that panel. She wrote a terrific book called *Other Peoples Houses* and has written extensively on these issues. They will be joined by Professor Frank Partnoy, who's a former derivatives trader and author of several great books, as well as Professor Jeremy Kress. After lunch break SEC chair Gary Gensler will discuss a market regulators view of Too-Big-To-Fail. That discussion will be followed by our second panel with Professor Art Wilmarth, who has written extensively for many decades about these issues, including most recently, a terrific book called taming the mega banks. I'll warn you, it's a mega book, but it's well worth your time. Professors McCoy and Omarosa also have lengthy and impressive thought-provoking writings on all of these subjects, including the Too-Big-To-Fail problem and the subprime virus. Professor Simon Johnson is also on that panel, and he wrote one of the most important books on the 2008 crash called *13 Bankers*, which is as relevant today as it was when it was written in 2010. That panel will be followed by CFPB director Rohit Chopra talking about Too-Big-To-Fail from a financial consumer protection point of view. After a coffee break, our last panel will focus mostly on the future. Leading off that panel will be Reed Hunt, who wrote a fantastic book that received way too little attention when it came out in 2019. It's titled *A Crisis Wasted*. He will offer his thoughts on that, and I encourage you all to also get the book. It's really invaluable. Two of the other panelists have key books coming out in January of 2024. Anat Admati's book is a new and expanded edition of her 2013 blockbuster called the *Bankers New Clothes*. This is the truth about bank capital and will include chapters on Silicon Valley Bank and the 2023 banking crisis. She'll be joined by Jerry Epstein, who also has a forthcoming book coming out in January of 2024 called *Busting the Bankers Club*, and it too is a must read. Rounding out that panel will be former Kansas City Fed president and former FDIC chair Tom Hoenig, who has been right about and a leader on most of these issues for decades. I know this sounds like a book club, but I mentioned these books because they reflect the deep and extensive thinking our panelists have done on these subjects. Please check out their bios on the website and refer to their work. Look at the reference materials and find some time to read all of them. They're well written, mostly easy to read and understand and they'll get you thinking of some of the most important issues that continue to face and challenge our country, which we're only going to be able to touch on today, as much as possible that one can do in one day.

Now, let me turn to our kickoff speaker, Senator Elizabeth Warren. She's been a Senator from Massachusetts since 2013. But long before then, she was fighting for hardworking Americans for decades as a legal scholar and consumer advocate. Her work as a law professor specializing in bankruptcy law provided her with the ground truth, the lives people actually live, the struggles they have, the challenges they face, and how the financial and legal systems were working for them or against them. And that's why real people often suffering at the hands of the law in the financial industry, we're never far from her mind. Many of those people will be put through the wringer of bankruptcy, often due to no fault of their own because of medical bills caused by a severe illness, unemployment, divorce, injury. Many others were victims of financial predators. And that's why she's so well understood how the economic, financial and legal systems not only work but importantly, who they work for, and who they do not work for and why. And that led her to oppose the bankruptcy law in the late 90s and early 2000s. It was unfair to hardworking, mainstream American families. That's also why she was such a powerful and effective advocate for strong financial reform, following the Lehman crash when she led the fight to create the Consumer Financial Protection Bureau to protect Main Street American consumers. She was also appointed to serve as the first chair of the Congressional Oversight Panel for the TARP bailout pass just weeks after the Lehman crash. She was the people's watchdog of both Wall Street and government officials making sure the taxpayers' money was well spent, properly used and paid back. She then took all of that experience and knowledge to the Senate Banking Committee, where she holds public officials, regulators and bankers to account for their actions and pushes them to make sure they are prioritizing Mainstreet families. It's my honor to introduce to you Elizabeth Warren.

Senator Elizabeth Warren
Oh, that is such a generous introduction, Dennis. I really do appreciate it, and I appreciate the group that you have brought together today. As you were going through the list, I was thinking, oh, yeah, that's someone who's going to have a lot to say. And every book you've talked about, I think I've read all the ones who are out now so far, just terrific stuff, so thank you. Thank you for your leadership. I also want to say how grateful I am to be here with everybody who's on this conference, as we have a chance to reflect on the 15 years that we've spent trying to build a fairer, safer and more resilient financial system than the one that crashed in 2008.

Every year since the crash has brought countless battles to create an economy that works better for working families, not for Wall Street bankers. And Better Markets has been on the frontlines in every one of those battles. You have gone up against the biggest lobbyist in Washington to try to help fulfill the promises of Dodd-Frank. You supported the creation of the CFPB in the aftermath of the financial crisis, and I appreciate it. Now you're out-front amplifying the Bureau's important work while it faces these baseless legal attacks. And thanks to your efforts, we have stronger rules across the financial system. We have more cops on the beat to enforce those rules. But as is the case with most fights for economic justice, this one isn't done.

This year, we experienced the second, third, and fourth largest bank failures in US history. After the 2008 crisis, Congress had passed tough laws designed to rein in those big banks. But the executives at Silicon Valley Bank, at Signature, at First Republic and other multibillion dollar banks fought back and in 2018 they got Congress to give in and weaken the rules. You know, some of us here in the Senate seem to have very short memories. The so-called Economic Growth Regulatory Relief and Consumer Protection Act or S 2155 was just a handout to bank executives from the start. And the result was exactly, exactly what we predicted. The bank executives loaded up on risks, jacked up short term profits and paid themselves huge bonuses. And when their banks exploded, those same executives walked away with millions and millions of dollars. Now, Congress bears a lot of responsibility here. But Congress isn't the only party responsible for this year's crisis. 2155 gave the regulator's discretion to apply enhanced standards to banks at the 100-billion-dollar mark. But again, thanks to bank industry lobbying, regulators refused to acknowledge the risks posed by these big banks. And they allowed institutions that had been keeping themselves smaller, so they could fly under the radar, allowed them to grow rapidly, and recklessly. And in less than five years, SVB grew from less than 60 billion to more than 200 billion loading up on risk without any constraint and without any meaningful scrutiny. So, months after SVB's failure, the Fed released a report acknowledging that deregulation came with the 2018 bill, and it helped pave the way for SVB's failure. You know, I have to say, I'm really glad they wrote the report. It's rare that you can get someone to actually admit what they did wrong. But we didn't actually need a report to tell us that this would be the result of deregulation. We said so five years ago when it was first debated. And that's why the week after SVB, collapsed, I introduced a bill to reverse 2155 with my colleague and my friend, Katie Porter. But importantly, regulators still have the ability to apply stronger standards without new legislation. Better Markets has been leading the call on this since the start. Better Markets has been urging regulators to apply tougher standards to banks above 100 billion, recognizing that these banks pose risks. And thanks to your leadership, regulators are finally moving in the right direction.

So, in a broken system, like the one we have, we know who gets ahead no matter who they've harmed, and that's Wall Street executives. That was true in 2008. And it is true today. And that's why in the wake of the SVB failure, I teamed up with Democrats and Republicans to introduce the Failed Bank Executives Clawback Act. The idea is to ensure that regulators have the tools they need to claw back giant bonuses from the executives who blew up their banks. The momentum we created paved the way for the Senate Banking Committee to advance an executive accountability bill, and I expect the full Senate to do the same in coming months. But preventing big bank CEOs from raking in huge bonuses for loading up on risks and destroying their companies, it's just plain old common sense. But there is more that we can, and we must do to protect our communities from the reckless greed of big bank executives.

Just a few weeks ago, I chaired a subcommittee hearing in the Senate Banking Committee to sound the alarm on the serious problem of bank consolidation. Everyone listening to this today knows that megabanks are dangerous. That is why we have the phrase Too-Big-To-Fail. But these banks didn't just spring up out of the ground as trillion-dollar entities. The current mess is the direct result of decades of mergers and acquisitions. So, get ready for some numbers here. In the 90s, there were 18,000 banks in the US. Today, there are fewer than 5000 banks. In the 90s, the 20 largest banks had 15% of all bank assets. Today, the 20 biggest have more than two thirds of all banking assets. And look, the numbers give you the clue. But this consolidation has had real consequences for real people. When banks get bigger, local branches close. When local branches close, families and small businesses have a harder time opening accounts and taking out loans. And that is when predatory lenders and check cashers swoop in to take advantage of people in a tough spot.

That's the bad news. The good news is we can actually fix this. We have a system in place for bank regulators to block mergers that would be bad for the economy. We just have to remind the regulators of their responsibilities and hold their feet to the fire when they ignore them. You know, despite all that we have learned since 2008, and despite President Biden ordering regulators to update merger guidelines, Acting Comptroller Sue and Treasury Secretary Yellen have still signaled openness to more mergers. I know that you all at Better Markets have good ideas about how to fix the merger review process, and I'm counting on you to keep pushing regulators to do the right thing.

Also, as we reflect on the 15 years since the crash, I just want you to know, we got a lot to be proud of. We've pushed for tougher rules, and we've empowered regulators to enforce those rules. We've done a lot, but we've also got a lot of work ahead of us. You know, regulators are poised to finalize strong rules for the big banks that have been a decade in the making. We got to push them over the finish line. And we've got to make sure they don't create more Too-Big-To-Fail banks in the process. In the meantime, Congress must pass the RECOUP Act, to make sure that executives are held accountable when they blow up their banks.

I am grateful for the fights that Better Markets has been in and for the changes you've been able to make. You are an important voice here in Washington. This fight to get us in the right place on these regulations, and to stop the bank mergers and consolidation, this really is one of the most important fights of our lifetimes, and I am honored to be in this fight alongside you Better Markets. So, thank you for having me here, Dennis. Thank you all for being part of this. And I'm looking forward to fighting together as we go forward.

Dennis Kelleher
Well, thank you so much, Senator Warren. We really appreciate your work and your leadership and your partnership. Nobody could have a better ally in Washington, DC than Senator Elizabeth Warren. And when you say you're counting on us, you can count on Better Markets. We're going to continue fighting and pushing the regulators to do the right thing. They have the power and authority to make dramatic change that can actually improve and help the lives of all Americans. That's what they're there for. And that's what we're going to keep doing so you can count on us. That's what we're going to do. So, thank you very much, really appreciate your thoughts and look forward to more years of fighting together.