Consumer Federation of America

Statement of Travis B. Plunkett,
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Regarding Budget Reductions to Financial Regulatory Agencies,
At Representative John Conyers' Budget Impact Forum
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Ranking Member Conyers and Members of Congress, my name is Travis Plunkett. Thank you for the opportunity to discuss the destructive effect that budget cuts to financial regulatory agencies passed by the House will have on Americans and the economy. I am legislative director of the Consumer Federation of America. I am speaking today on behalf of CFA and Americans for Financial Reform, a coalition of more than 250 national, state and local public interest organizations, including consumer, civil rights, community, business and labor organizations.

When House Republicans passed their 2011 funding cuts for the new Consumer Financial Protection Bureau (CFPB), the Securities and Exchange Commission (SEC) and the Commodities Future Trading Commission (CFTC) last week, they made clear that derailing Wall Street reform, rather than fiscal responsibility, was uppermost in their minds. The $63 million in cuts for the CFPB and just under $100 million in combined cuts proposed for the SEC and CFTC isn't even pocket change in the context of the overall federal budget deficit, it is the penny you don't bother to reach down and pick up off the pavement. This is especially true since much of the funding for these agencies is not provided by taxpayers. On the other hand, cuts of that magnitude would severely erode the ability of these agencies to rein in the type of Wall Street and big bank excesses that helped land us in our current fiscal difficulties.

The CFPB has been set up to ensure that, never again, will unfair, deceptive and abusive financial practices targeted at consumers be ignored by federal regulators. Federal inaction in the face of subprime mortgage lending abuses, for example, harmed millions of families, sparked a severe decline in the housing market, and triggered the Great Recession, with which we are all coping today. Because the agency is just getting started, the CFPB budget for this year is well under the $500 million authorized by the Dodd-Frank Wall Street Reform and Consumer Protection Act. The House Continuing Resolution would effectively cut the new agency's budget by 40 percent – from $143 million to $80 million. Let me point out that these are non-appropriated funds. The CFPB is funded by a transfer from the Federal Reserve Board. Dodd-Frank says explicitly that Congress has no appropriations authority over this transfer. Nonetheless, House leaders have ignored the law and are treating CFPB budget as if it is appropriated, taxpayer funds. The proposed CFPB cuts would not subtract a dime from the deficit. They would take money designated to protect American consumers from financial fraud and leave it instead with the already well-funded Federal Reserve System.

The $56.8 million House Republicans propose to cut from the CFTC's meager $168.8 million budget would decimate that agency just as it is taking on the gargantuan task of regulating a roughly $300 trillion U.S. over-the-counter swaps market. There is no way to look at such cuts except as a means to cripple the agency and thereby derail reform.

The $41 million cut proposed for the SEC, while less completely debilitating than the proposed cuts for the CFTC, would nevertheless leave the agency poorly equipped to fulfill its core mission of protecting investors and ensuring the integrity of our capital markets.

The good news is that the President's proposed budget for 2012 recognizes the important function that these agencies perform and proposes to provide them with funding that, while far from lavish, would allow them to fulfill their basic market oversight responsibilities. Moreover, it proposes to minimize the taxpayer impact of its proposed $308 million CFTC budget by off-setting $117 million of the budget through user fees.

The SEC budget is already fully covered by user fees, so there is absolutely no impact on the deficit from the President's proposed increase to $1.4 billion for that agency. And there would be no deficit reduction benefit from reducing funding below the proposed level, since (under a requirement of the Dodd-Frank Act) fees would have to be reduced to match any reduction in spending. As I mentioned, the same is true for the CFPB, for which the President proposes a $329 million budget in 2012.

So, why should Americans care about efforts by the House leadership to devastate the budgets of these financial regulatory agencies?

For the tens of millions of Americans who were tricked or trapped by their credit card company into paying a high interest rate or fee, or were told that they would benefit from an "exploding ARM" mortgage loan and later lost their home, or who paid a $35 dollar fee for a $6 overdraft, the answer is obvious. The Consumer Financial Protection Bureau would be a cop on the beat to make sure that they are treated fairly. But – as we have seen with subprime mortgage abuses, these efforts will not only protect consumers, but the economy – and jobs – as well. Big banks have made no secret of their desire to stop or cripple the efforts of this important new agency, and the House leadership is doing its best to help them with these attempts to cut the CFPB's budget.

And then there are the millions of Americans who have seen the value of their retirement savings plummet as a result of the 2008 financial crisis. The SEC was created in the midst of the Great Depression to serve as the investor's advocate – to ensure that markets operate fairly and efficiently and that investors' interests are protected. While the SEC has at times fallen short of that ideal, including in the run-up to the financial crisis, it is the best ally (and in some cases the only ally) investors have when it comes to policing the ranks of the brokers and advisers we rely on for investment advice and the stocks and bonds and mutual funds we invest in to fund our retirement. And it is the SEC we rely on to ensure that financial disclosures by public companies are accurate and that the markets themselves function smoothly. When that SEC oversight breaks down, investors pay a heavy price. Under-funding the SEC all but guarantees such a break-down.

But even Americans who have never invested a dime have an interest in ensuring that these agencies, and particularly the CFTC, have the funding they need to provide the effective regulatory oversight on which the economic stability of the country depends. Lack of effective regulation of the derivatives market was a major cause of the financial crisis. The CFTC is not responsible for that failure, Congress is. It was Congress that denied the agency the authority in need to regulate an over-the-counter derivatives market whose size is exceeded only by its complexity and its potential to inflict harm on the broader economy. Now that the CFTC has been given the authority it needs to regulate derivatives, it must also be given the necessary funding if we are to prevent a repetition of that regulatory failure.

If we learned nothing else from the financial crisis, we should have learned that, unless regulators have the authority and resources they need to rein them in, Wall Street will run amok, and average Americans will end up bearing the costs. It's no coincidence that, while millions of average Americans are still out of work, have lost their homes, and are wondering when the economic recovery is going to trickle down to them, Wall Street is back to celebrating healthy profits and the even healthier bonuses those profits bring. They have plenty of money on hand to lobby against effective regulatory reform and plenty of friends in Congress ready to do their bidding. The regulators whose job it is to keep them in line need the resources to fight back.