



County of Erie

MARK C. POLONCARZ
COMPTROLLER

February 4, 2010

Senator Charles E. Schumer
313 Hart Senate Building
Washington, DC 20510

By Facsimile (202) 228-3027
and U.S. Mail

Re: Financial Services Regulatory Reform

Dear Senator Schumer:

As the chief financial officer for Erie County, I have seen on almost daily basis the effects of the near collapse of our economy. Revenues for New York State and Erie County have dramatically declined. Former pillars of the financial industry that my office had relationships with for decades, no longer exist. Local employers either went out of business or cut back on their work force because of the downturn. And some of our local residents have found themselves in a losing battle with predatory lending institutions that often result in bankruptcies that could have been avoided.

As you aware, working its way through the Senate's Banking, Housing and Urban Affairs Committee chaired by Senator Christopher Dodd is a bill that seeks to reform our nation's financial regulatory system. This bill is similar, though not the same, to the *Wall Street Reform and Consumer Protection Act of 2009* (H.R. 4173) sponsored by Representative Barney Frank and passed by the House of Representatives on December 11, 2009. Both these bills would greatly change the way our nation regulates aspects of our economy, including regulating for the first time the derivative industry that was a primary cause of the failures of former industry giants like Lehman Brothers, Bear Stearns and AIG.

Each bill also would create a new Consumer Financial Protection Agency (CFPA). This agency would be tasked with protecting consumers from financial abuse and predatory lending practices. If there is anything that we have seen over the recent past, it is that if given the chance to do so, predatory lenders in the consumer credit and housing markets will prey on individuals in the constant pursuit of greed.

I believe that it is essential that the Senate pass a companion bill to H.R. 4173 and that such a bill must include the creation of a strong CFPA. It has been reported that Senator Dodd might be willing to delete the provisions creating the CFPA in order to get

Sen. Schumer Financial Services Reform Letter

February 4, 2010

Page 2 of 2

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As such, I call on you to do all that you can to ensure that such a bill is brought to a vote and is passed. You have an opportunity to ensure that our nation does not face another economic crisis in the future like the one we just went through. While financial services reform might not be as high profile as the health care reform effort, financial services reform is needed to ensure the long-term health of our nation's economy.

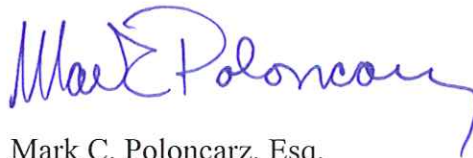
Enclosed for your review is a commentary written by the undersigned describing why financial services reform is needed, which was printed in The Buffalo News on December 6, 2009. As I wrote in that commentary:

Our "Free Market" has never been one hundred percent free of regulation, and as history shows, the market does work better when appropriate regulatory mechanisms are in place. The system left to its own will inevitably bring about bank and other financial institution failures in the constant pursuit of greed. Even former Fed Chairman Alan Greenspan has since admitted that his guiding principle, his economic worldview, that an unregulated market is best was wrong and that regulation of the marketplace is needed to ensure the system's stability.

With appropriate regulation in place, accountability, transparency and trust in the markets exist, and with that a financial system that works for the vast majority. Despite the differences between the Dodd, Frank or Obama proposals, given the federal regulatory system's failures leading up to Wall Street's self-inflicted collapse and the recession, greater regulation is clearly needed so the same system that almost brought down life as we know it can never actually do so in the future.

I hope that you agree that reformation of our current financial system is needed, and that I can count on your support and vote in making that happen.

Sincerely yours,



Mark C. Poloncarz, Esq.
Erie County Comptroller

MCP/mk
Encl.

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Mark C. Poloncarz: U. S. must reform financial system

By Mark C. Poloncarz

SPECIAL TO THE NEWS

Updated: December 07, 2009, 1:22 PM /

For many weeks now, the eyes of the nation have been transfixed on Washington and the debate over passage of a health care reform bill. It goes without saying that passage of a health care bill is a pillar reform measure of the Obama administration.

But another reform effort is now working its way through the halls of Congress. This effort, while not getting the attention of the public like the health care debate, is equally important for the long-term health of our nation. That is because this effort seeks to reform our financial system and the agencies that regulate it.

Working their way through the House of Representatives and the Senate are two bills, each dramatic in scope, that would change the way our markets are regulated. This month, Senate Banking Committee Chairman Christopher J. Dodd, D-Conn., released a 1,136-page proposal that would greatly overhaul the current system and strip the Federal Reserve Bank of much of its regulatory oversight power. In the House, Financial Services Committee Chairman Barney Frank, D-Mass., has been working on a proposal that is more in line with the Obama administration's plan of reforming the financial system, but unlike the Dodd proposal, it gives the Federal Reserve Bank even more regulatory power than before.

In the Dodd bill, the current system would be revised by taking power away from the Fed and the Federal Deposit Insurance Corp. and eliminating the Office of the Comptroller of the Currency and the Office of Thrift Supervision. In their place, Dodd's bill would create one super-regulatory agency for monitoring banking institutions (the Financial Institutions Regulatory Administration), another tasked with monitoring "too big to fail" companies (the Agency for Financial Stability) and a third that would protect consumers and other bank customers from deceptive and abusive credit card and mortgage lending (the Consumer Financial Protection Agency).

Dodd's bill would also change the way members of the Fed's governing board are chosen, requiring for the first time Senate confirmation for each member of the board. Finally, the bill would also provide more police powers for the Securities and Exchange Commission, including requiring hedge funds and derivative markets to be fully regulated for the first time.

Where Dodd's bill differs with the White House and Frank's proposals is that the latter proposals give more power to the Fed in regulating banks, not take it away. Treasury Secretary Timothy F. Geithner, formerly president of the Federal Reserve Bank of New York, has argued that it was only because of the action taken by the Fed in late 2008 that a greater economic catastrophe was avoided, and hence its power should be strengthened.

Frank's proposal is not as encompassing as Dodd's, but still makes some major modifications to the current system. In Frank's bill, the Fed retains its position of significance in regulating banks and the greater financial system as a whole. However, the House proposal would also require regulation of the

derivative markets (already passed by the committee) and create its own consumer financial protection agency, though one not as strong as proposed by the White House or in the Dodd bill.

Both the Senate and House proposals have largely been prepared without bipartisan support. Ironically, the extent of the limited comment from Republicans on the matter has been to express opposition to the creation of the Consumer Financial Protection Agency. Sen. Richard C. Shelby, R-Ala., the ranking Republican on the Senate Banking Committee, has openly criticized the creation of such an agency, and no Republican has publicly supported the Dodd plan.

While these bills approach the subject of reforming our financial system from different avenues, it is important that a bill be passed in the near future. The Obama administration hoped to have a bill passed and become law by the end of the year. That appears unlikely considering the differences between the House, Senate and Obama proposals and the need to bring all these differing interests together.

Yet reform is needed because the same system that helped bring forth the near collapse of our financial system is still in place. Derivative markets, the "Wild West" of the financial system, are still unregulated. Consumers and small businesses still find themselves subject to the predatory lending practices of large institutions. And the many "alphabet soup" agencies regulating sometimes different, but often the same aspects of our system, still exist with occasional contests for authority.

On Nov. 19, Dodd spelled out the need for systemic change by stating, "Our financial regulatory system, created piece by piece over decades with little thought given to how it would function as a whole, is simply unable to prevent staggering greed and unthinkable recklessness from threatening our economic security." He is right. After the near collapse of the world's economy, our current system does not guarantee our economic security. While Wall Street might be recovering, our economy is still going along in fits and starts and is based on a system that does not instill complete trust among investors and the general public.

Everyone understands the need for health care reform: our current system is broken and fails to provide a health care safety net for a substantial portion of our working population. While many may object to the specifics of the health care reform proposals passing through Congress now, not many people disagree with the basic premise that good, affordable health care should be available to all Americans.

However, most Americans do not see the need for financial regulatory system reform; unless, of course, you lost your job because you worked for Bear Stearns, Lehman Brothers, Wachovia, Washington Mutual, CIT or one of the host of financial institutions that went belly up causing the crisis, or your employer shut down as a result of the economic crisis, or you were unable to borrow money because the markets were frozen, or you lost your house to predatory lenders who packaged your adjustable rate mortgage as a mortgage-backed security derivative and then sold it to Bear Stearns, and so on and so on.

On second thought, considering the impact this recession has had on our nation, maybe most Americans do realize the need for financial reform, and they just are not yet taking to the streets in support of it. Our "free market" has never been 100 percent free of regulation, and as history shows, the market does work better when appropriate regulatory mechanisms are in place.

The system left to its own will inevitably bring about bank and other financial institution failures in the constant pursuit of greed. Even former Fed Chairman Alan Greenspan has since admitted that his guiding principle, that an unregulated market is best, was wrong and that regulation of the marketplace is needed to ensure the system's stability.

With appropriate regulation in place, accountability, transparency and trust in the markets exist, and with that a financial system that works for the vast majority. Despite the differences between the Dodd, Frank or Obama proposals, given the federal regulatory system's failures leading up to Wall Street's self-inflicted collapse and the recession, greater regulation is clearly needed so the same system that almost brought down life as we know it can never do so in the future.

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COMPTROLLER

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478 Russell Office Building
Washington, DC 20510

By Facsimile (202) 228-0282
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