United States Senate
Committee on Banking, Housing, and Urban Affairs
Christopher J. Dodd (D-CT), Chairman

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Statement of Chairman Christopher Dodd
"Turmoil in the U.S. Credit Markets: Examining Recent Regulatory Responses"

Remarks as Prepared:

This morning we consider recent regulatory responses to the ongoing turmoil in our national and global credit markets.

Those responses have included a series of measures that are, in many respects, without precedent in our nation's history.

These measures began for the most part with the decision in March of this year to commit $30 billion in taxpayer-backed funds to facilitate the acquisition of Bear Stearns by JP Morgan Chase.

They also include the decisions by the Federal Reserve through the spring, summer, and fall to establish various facilities and initiatives to promote liquidity in the markets, including in the commercial paper markets.

They include the takeover of the nation's largest insurer – AIG – committing over $120 billion to this effort thus far.

They include the decision to put Fannie Mae and Freddie Mac into conservatorship and provide them with a $200 billion federal backstop.

They include the decisions to guarantee non-interest bearing deposit accounts at insured depository institutions, and to guarantee senior unsecured bank debt for a period of three years.

And most recently, they include the decision to invest $250 billion into lending institutions – including some $125 billion in just 9 large lenders – in an effort to promote financial stability and liquidity.

According to one report, decisions taken or implemented by federal regulators in the past 7 months have committed no less than 5 trillion in taxpayer dollars to stemming the tide of the credit crisis. Five trillion dollars. That is an astounding sum – equivalent to roughly one-third of our annual economy. Taken together, these decisions have made the American taxpayer a guarantor, owner, and shareholder in the financial sector of our economy to a degree never before seen in our country – and rarely seen in any free market economy.

Certainly in recent months, no one can accuse Chairman Bernanke, Secretary Paulson, Chairman Bair, and others of timidity in the face of this crisis. Nearly 15 months ago, Chairman Bernanke pledged to me that he would use all the tools at his disposal to maintain order, stability, and liquidity in our capital markets. He has been true to his word. Likewise, Secretary Paulson, Chairman Bair, and Chairman Cox have all acted aggressively in recent weeks. While the jury is still out regarding the ultimate impact of their actions, few if any doubt that those actions have forestalled the worst case scenario of a complete seizure in the financial markets.

Nevertheless, one cannot escape several hard truths about these regulatory actions. First and foremost is the truth that they have largely addressed the symptoms of the credit crisis, rather than its cause.

For nearly two years, I have urged forceful and definitive action to reverse the rising tide of foreclosures that began to wash across our nation in 2007. I have not been alone in this call. Colleagues on both sides of the aisle have been sounding the same note. So have economists and analysts from across the political spectrum – including such distinguished individuals as former Carter and Reagan Fed Chairman Paul Volcker, Nobel Prize winners Joseph Stiglitz and Paul Krugman, former Reagan chief economic advisor Martin Feldstein, former Chairman of President Bush's Council of Economic Advisers Glenn Hubbard, and American Enterprise Institute Resident Fellow Alex Pollack.

These and other experts all agree that the key to our nation's economic recovery is the recovery of the housing market – and that the key to recovery of the housing market is reducing foreclosures.

Without a solution to this central problem – the record-setting foreclosure rate – more Americans will continue to lose their homes and see the value of their largest asset plummet to the point where homeowners owe more on their mortgages than their homes are worth. Declining home values, vacant properties, and reduced revenues will destabilize more and more neighborhoods. As economist Mark Zandi noted in March of this year:

> "Only if more homeowners are able to remain in their homes will the negative cycle of foreclosures begetting house price declines begetting more foreclosures be short-circuited. This in turn is necessary to ending the downdraft in the housing market that is weighing so heavily on the economy and financial system."

Without addressing the cause of the crisis as swiftly, aggressively, and decisively as the Administration has tackled the symptoms of the crisis, house prices will continue to fall or stagnate, and the value of assets based on mortgages – trillions of dollars of which are on the books of our major financial institutions – will continue to be virtually unknowable. To date, with few exceptions, we have not seen the required dedication.

The longer we allow foreclosures to erode family wealth, neighborhood stability, and financial market liquidity, the longer our economy will take to recover from this crisis. The result will be a continuation of the volatility and paralysis that our regulatory leaders are working so feverishly to address today.

A number of us have been working very hard on this problem. The HOPE for Homeowners initiative that we created in the Housing and Economic Recovery Act was a good start. Ultimately, it holds the promise of helping 400,000 or more Americans obtain safe, secure, affordable mortgages.

Similarly, the Emergency Economic Stabilization Act which was signed into law on October 3rd obligates the Treasury to implement a plan to prevent foreseeable and avoidable foreclosures. Very importantly, Section 109 authorizes the Secretary to use loan guarantees and credit enhancements to facilitate loan modifications to prevent avoidable foreclosures. This slender provision alone can help countless deserving Americans escape the foreclosure trap set by predatory lenders.

This morning, we look forward to asking our witnesses what steps they are taking to implement these and other provisions designed to stop the hemorrhaging in our housing markets that has bled out into the wider economy.

We also look forward to asking them what steps they are taking to ensure that the American taxpayer is not just bankrolling the banking industry, but benefitting, as well, in the form of expanded lending activity. It is beyond troubling to read in recent news reports that those lenders who will be receiving billions of dollars from US taxpayers are considering using those dollars not to make loans, but rather to pursue “some acquisition opportunities” and to create a capital “cushion” on which they will comfortably sit while the American consumer and small business person struggles. Reading such reports, it is no surprise that a majority of Americans surveyed in a CNN/Opinion Research Corporation poll this past weekend disapproved of regulators’ actions that focus on the banking industry. Doing more for homeowners is the one policy solution that a majority of those Americans said they support.

If there were ever a time that demanded that we think anew, this is it. Now that the Administration has taken strong measures to stabilize financial institutions, it is imperative that we apply the same sharp and urgent focus to help the individual homeowners whose plight is at the root cause of this crisis, and to the small business owners who are valiantly struggling to stay afloat.

We are fortunate to have a distinguished panel of witnesses with us this morning. We look forward, as always, to hearing their thoughts on what steps we can and must take to turn away from the failed policies and flawed thinking of the past, and instead turn toward a more hopeful and prosperous future for each and every American.

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