STATEMENT
of
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PRESIDENT AND CEO
THE FINANCIAL SERVICES ROUNDTABLE

Before the
HOUSE FINANCIAL SERVICES COMMITTEE
U.S. HOUSE OF REPRESENTATIVES

OVERSIGHT OF IMPLEMENTATION OF THE
EMERGENCY ECONOMIC STABILIZATION ACT OF 2008
AND GOVERNMENT LENDING AND INSURANCE FACILITIES;
IMPACT ON THE ECONOMY AND CREDIT AVAILABILITY

NOVEMBER 18, 2008

Mr. Chairman, Ranking Member Bachus, and members of the Committee, I am Steve Bartlett, the President and Chief Executive Officer of the Financial Services Roundtable ("Roundtable").

The Roundtable is a trade association for the nation's largest financial services firms. Our members provide banking, insurance, securities and other financial products and services to millions of individual consumers and businesses throughout the United States.

On behalf of the member companies of the Roundtable, I appreciate the opportunity to address the implementation of the Emergency Economic Stabilization Act of 2008 ("EESA"), and the impact of that Act and other government lending and insurance programs on the economy and credit availability.

Congress and the Administration Have Taken Extraordinary Actions

The EESA was an unprecedented intervention by the Congress and the Administration to restore liquidity and stability to the U.S. financial system, and thereby promote economic growth. EESA gave the Treasury Department ("Treasury") extraordinary authority not only to purchase or guarantee mortgage related assets held by financial institutions, but also to purchase other financial instruments from financial institutions. EESA also increased, temporarily, the level of deposit insurance from $100,000 to $250,000 per depositor.

In the six weeks since the enactment of the EESA, Treasury has moved rapidly to implement the Act. It sought public comment on key features of the Act, such as the asset guarantee program, and it retained legal, accounting and other experts to help manage the programs authorized by the Act. Most significantly, it used its authority to purchase financial instruments from financial institutions to inject capital into the financial system. Treasury also modified section 382 of the Internal Revenue Code, a tax provision that was a long-standing impediment to healthy companies' abilities to acquire failing ones. We encouraged lawmakers to consider options that both protect that taxpayer and ensure continued depositor and consumer confidence in the financial system. Changing Section 382 achieves both of these goals.

At the same time, Treasury and the federal banking agencies have made use of pre-existing authorities to take a number of other actions to stabilize financial markets. The Federal Reserve Board established a liquidity facility for commercial paper, using its long-standing, but rarely used, power to support any company in “unusual and exigent” circumstances. The Federal Deposit Insurance Corporation (“FDIC”) used, for the first time, its “systemic risk” authority to guarantee senior, unsecured debt issued by depository institutions and their holding companies. The new Federal Housing Finance Agency used powers granted in the Housing and Economic Recovery Act of 2008, (“HERA”) to place Fannie Mae and Freddie Mac into conservatorship, and Treasury provided equity and liquidity support to these Government-Sponsored Enterprises (“GSEs”) to help stabilize mortgage markets.

Collectively, these actions have started to thaw frozen credit markets, and limited the scope of the financial crisis. We have seen a decline in key interest rates, such as the London Interbank Offered Rate (“LIBOR”), which is linked to many consumer and business loans.

Mortgage interest rates have stabilized, although they remain at a very high level. The run on money market funds and individual banks has stopped. In sum, we are making progress.

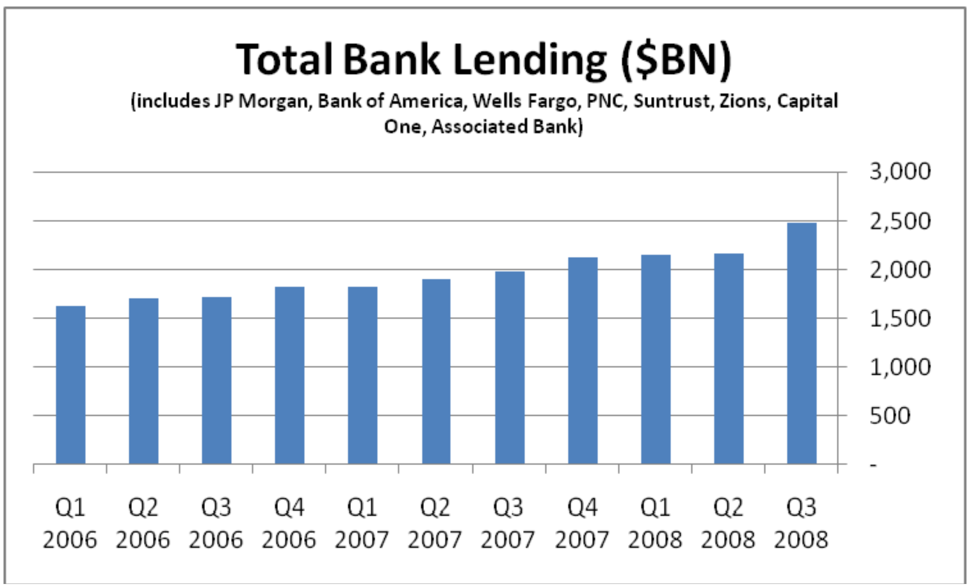
The Capital Purchase Program

During the consideration of EESA, it was widely anticipated that Treasury initially would use the EESA to purchase distressed mortgage-related assets held by financial institutions. Asset purchases were intended to permit financial institutions to focus on new lending, not problem assets. As we now know, Treasury decided to pursue a different course.

Treasury initiated a Capital Purchase Program ("CPP") to inject capital into financial institutions. The stated goal of the CPP is to increase the flow of financing to U.S. businesses and consumers and to support the U.S. economy. The injection of $250 billion in capital into our financial system should have this effect. Capital infusions will enable institutions to fund credit to good credit risks. Capital infusions also will enhance lending indirectly by permitting stronger institutions to acquire weaker institutions. Dollar for dollar, capital injections will have a greater overall impact on lending activity than the purchase of distressed assets because financial institutions will be able to leverage capital with other sources of funds.

It is too early to fully assess the impact of CPP. While some institutions have received capital injections, the deadline for publicly-traded financial institutions to participate in the program was just last Friday. Additionally, Treasury has yet to announce the procedures and filing deadlines for non-public financial institutions.

Nonetheless, as credit markets continue to unfreeze, our members will continue to lend to qualified buyers. Our analysis of lending data indicates that banks are extending credit, and actually are increasing credit to qualified buyers – those with good credit risks. The following table, which is based upon 10Q filings, illustrates the historical levels of lending by several money center and regional banks. The chart shows that lending by these institutions has increased, including the third quarter of this year.



Additionally, we have conducted verbal interviews with loan officers regarding lending activities within the last 3 months, several conclusions can be drawn from these interviews: First, well-capitalized banks continue to make commercial loans to qualified customers based on demand. Second, lenders have not changed underwriting standards for business loans. Therefore, customers with good credit that meet these underwriting standards will continue to have no difficulty in getting loans. Third, strong banks are picking up loans from lenders that are not as well-capitalized. Access to CPP funds, as well as other programs instituted by the

Administration, will help lower the cost of credit and essentially, will increase access to capital for qualified borrowers.

Finally, we should not lose sight of the fact that loan demand is being affected by the general state of the economy. As the economy slows, many companies are reducing, not increasing, their demand for new credit. Regardless of the increase in commercial lending to qualified borrowers, deteriorating economic conditions continue to add stress to the market.

Mortgage Markets Remain Under Stress

While the actions taken by Congress and the Administration have done much to stabilize financial markets, the nation's mortgage markets remain under considerable stress. Mortgage interest rates have stabilized, but remain at unacceptably high levels. Until we see an appreciable reduction in these rates, housing will continue to be a significant drag on the economy.

In the past few weeks, the mortgage markets entered a new and potentially more dangerous stage. Traditional purchasers of mortgage securities and GSEs debt have curtailed their normal purchases of such assets. This decline in the demand for mortgage securities and GSE debt is forestalling a decline in mortgage interest rates.

Throughout the first half of this year, all institutional investors (foreign-institutions, GSEs, domestic banks, asset managers and hedge funds) purchased an average of $54 billion in mortgage backed securities ("MBS") per month. Since August, however, we have seen a reversal in the demand for MBS. These investors sold approximately $40 billion in MBS in August.

Moreover, the spread on GSE debt in relation to Treasury obligations remains at record highs, and most asset managers are not purchasing GSE debt with maturities greater than one year.

This turnaround in the demand for MBS and GSE debt is due, in part, to the global de-leveraging that is underway. However, it also is an unintended consequence of policy actions taken by Congress and the Administration. Markets are confused by the extent of federal support for the GSEs beyond December 31, 2009. That is the end date for the purchase of unlimited GSE debt and equity by Treasury under the terms of HERA. Additionally, the FDIC's recent guarantee program for senior, unsecured bank and holding company debt caused investors to view those obligations as more secure than GSE debt. Last week, I asked a senior trader for a large bank why GSE debt is trading so high in comparison to Treasury bills, he said that "despite the government assurances thus far, many investors remain concerned about the credit of the GSEs and the ambiguity about whether the long-term debt of the GSEs is actually guaranteed."

The solution to this problem is two-fold. First, Treasury should eliminate market confusion over the scope of its support for the GSEs by explicitly guaranteeing GSE debt in a manner identical to the FDIC support for bank debt. Treasury could do so by expanding its contractual commitment to provide capital support beyond the $100 billion it already has pledged to support the GSEs. Also, Treasury reportedly has interpreted HERA to permit it to support the GSEs beyond the December 31, 2009 date. If so, Treasury should release a legal opinion to that effect. These actions would help to convince investors that GSE debt is supported by the federal government, and that would allow spreads to return closer to historical levels.

Second, Treasury should reverse the falling demand for MBS and GSE debt by using its existing authority under HERA to purchase MBS issued or guaranteed by the GSEs. Reportedly, Treasury has made some purchases, but we recommend that it do so on a more systematic and public basis. Treasury, in conjunction with the FHFA, should direct the GSEs to issue new debt, and should then purchase the amount of loss previously discussed (at least $15 to $20 billion) in MBS per month until mortgage markets return to normal. These purchases should be steady and transparent. This will help to reduce volatility in the markets as well.

Combined, we believe these actions, which are within the control of Treasury, would reduce the rate on 30-year fixed rate mortgages to at least 5.50%. At that level, a substantial portion of homeowners could refinance into lower monthly payments freeing up cash to spend on goods and services, thereby providing needed stimulus to the economy. We should see an upturn in the demand for new home purchases as mortgage financing becomes more affordable and this, in turn, should reduce downward pressures on home prices.

Mortgage Foreclosures

The rate of mortgage foreclosures is a continuing concern. The Roundtable and its member companies are devoting significant resources to helping homeowners avoid foreclosure. Individual companies have aggressive programs to assist their mortgage customers and several major lenders have recently announced new efforts. In addition, Roundtable member companies were instrumental in the creation of the HOPE NOW Alliance, through which lenders are modifying approximately 100,000 mortgages a month. HOPE NOW also was involved in the development of the streamlined loan modification program announced last week by the Federal

Housing Finance Agency, the GSEs and Treasury. That streamlined modification framework is designed to accelerate the structuring of modified mortgages that the highest risk homeowners can afford and could help hundreds of thousands of at-risk homeowners avoid foreclosure.

There are also proposals to utilize TARP funds to guarantee additional mortgage modifications. Additional assistance to advance broad-based streamlined loan modifications should be considered. However, we would urge that these proposals be carefully considered to assist those homeowners most in need, to minimize incentives for others to default and to ensure new programs work in conjunction with the efforts now underway. In addition to discussion of a new government guaranteed loan modification program, we urge that the FHA Secure program be continued in 2009 and that adjustments be made to the Hope for Homeowners program to maximize its effectiveness.

Additional Policy Actions

The Roundtable believes that Congress and the Administration should take some additional actions to accelerate our return to economic growth and job creation.

Expand the Capital Purchase Program

To further stimulate lending and investment, Treasury should permit other financial institutions to participate in the CPP. To date, the Treasury has permitted only insured banks and thrifts and their holding companies and insurance companies within the thrift and bank holding company regulatory structure to participate in this program. Other financial institutions perform equally important roles in supporting and stabilizing the economy, including life insurance firms and consumer finance companies, and the EESA authorizes assistance to all financial institutions. Some financial institutions, such as property and casualty insurers have decided not to participate in the CPP. That is an appropriate decision for those companies.

Private mortgage insurance companies, for example, are essential to restoring mortgage lending to the hundreds of thousands of creditworthy borrowers who cannot afford a 20 percent cash down payment, but who are otherwise well qualified to purchase and finance a home. A variety of steps are needed to return stability and the availability of credit to the housing market. Life insurance companies are a major provider of mortgage funds, and consumer lending companies are a critical component for our consumer industries.

Moreover, CPP should be available to foreign-owned financial institutions that have a significant operation in the United States. The U.S. customers of those institutions should be able to benefit from the program. While we understand the public policy arguments of not including foreign-owned institutions, there are many foreign-owned institutions that are "controlled" by their U.S. subsidiaries. Additionally, foreign-owned institutions play a significant role in the U.S. market. For example, foreign-owned life insurance companies comprise approximately 25% of the life insurance market in the U.S.

Treasury has the statutory authority to extend the program to all types of financial institutions, including foreign-owned financial institutions with significant operations in the U.S., and it should do so, in the context of addressing financial services stability and U.S.

competitiveness in global markets. A letter we submitted to the Treasury Department on this matter can be found at: http://www.fsround.org/policy/pstatements/pdfs/RoundtableLetter_treasurycapitalprogram_final.pdf.

Implement the Asset Guarantee Program

The Treasury Department should move forward expeditiously with the EESA authorized asset guarantee program. This program is an ideal complement to the on-going CPP and would go a long ways toward helping stimulate additional lending. It would permit financial institutions to obtain, for a premium, a federal guarantee for both loans and securities. Such guarantees would help maintain these assets until markets stabilize. Moreover, if it is priced properly, this program should operate at no cost to the taxpayers. The Roundtable's letter to the Treasury on how best to implement this program can be found at: http://www.fsround.org/policy/regulatory/pdfs/RoundtableLetter_guaranteeprogram_final.pdf.

Expedite Holding Company Applications

The Federal Reserve Board and the Office of Thrift Supervision, in cooperation with the other federal banking agencies, should establish uniform procedures for expediting holding company applications for institutions that seek such status. The Board has shown that it is able to do so for some of the nation's largest financial firms. All financial firms, regardless of size, should be afforded similar treatment.

Fix Fair Value Accounting

Fair value accounting is broken and needs to be fixed. The most recent announcement by the Securities & Exchange Commission ("SEC") and the Financial Accounting Standards Board ("FASB") has relieved the pressure on some institutions, but even that announcement is being interpreted differently by different auditing firms. The Roundtable recommends: (1) the creation of a new sub-category under the fair value hierarchy that will aid in the valuing of long-term, non-trading assets in an inactive market, and (2) clearer guidance from the SEC, FASB, and the Public Company Accounting Oversight Board on the use of judgment when determining a value under FAS 157.

Additionally, FASB should consider other than temporary impairment rules that are consistent with those of the International Financial Reporting Standards. Our submission to the SEC, in response to the fair value assessment mandated by EESA can be found at: http://www.fsround.org/policy/regulatory/pdfs/Roundtablecomments_SEC_FVAstudy_final.pdf.

Create a Market Stability Regulator

We need a market stability regulator. No single agency or entity is officially empowered to monitor all markets and all financial services firms, and raise a red flag when practices or policies need to be adjusted or modified to minimize systemic risk. The Treasury and the Federal Reserve Board have done an outstanding job in the current crisis, given current authorities. However, going forward, Congress should empower some agency or authority to keep abreast of market developments, and help foresee, and forestall, a repeat of this crisis.

Optional Federal Charter for Insurance

There is a need for federal insurance supervision that will strengthen the oversight of insurance markets and potential insurance risks by authorizing optional federal chartering and supervision of firms engaged in the business of insurance. Numerous state regulators focused on different areas of insurance – without any common principles – or any coordination create further instability in the market. We support a federal charter for insurance companies that do interstate business. The state by state regulation of national insurance products is the last vestige of the 19th Century regulation --- it is now time to move to the 21st Century.

Summary

In summary, the actions taken by the Congress and the Administration to date have helped to thaw the credit markets. Those borrowers with good credit continue to have access to loans at reasonable terms, but it will take some time for actions taken by the Congress and the Administration to filter throughout the economy. The cost of mortgage credit is a continuing, and serious concern. If mortgage interest rates do not come down, housing will continue to be a drag on our economy. Congress has given Treasury the tools to address this issue in HERA, which was passed earlier this year. We urge Treasury to use these tools. Finally, the Roundtable believes that Congress and the Administration should take some additional actions to accelerate economic growth and job creation, such as expand the CPP, implement the asset guarantee program, expedite bank holding company applications, fix fair value accounting, create a market stability regulator, and create an optional federal charter for insurance companies that do interstate business.