

# Statement of Ranking Member Bachus, Full Committee Hearing Entitled "The Future of Financial Services: Exploring Solutions for the Market Crisis"

September 24, 2008

Over the past year, the U.S. financial system has been shaken to its very foundation by a financial contagion that has disrupted the orderly operation of our financial markets. We continue to see the consequences of years of overleveraging, risk taking, over extension of credit, and the failure of our rating agencies and others to properly assess risk. The combination of an outdated financial regulatory system and the regulators' failure to exercise adequate oversight allowed these problems to fester, with disastrous consequences for our economy.

To date, we have had a series of individual interventions by our regulators that have brought only short-term relief. It is obvious to most of us that a systematic approach to this problem is the only course of action that has any hope of being effective.

Last weekend, the Chairman of the Federal Reserve and the Secretary of the Treasury brought us their proposal for this systematic approach. Since then we have become submerged in a mass of conflicting propositions and counter proposals submitted from all sides. We and the media have obsessively analyzed the details of each new idea. In so doing, we have lost sight of the fundamental issue: is a severe market cataclysm imminent and if so will the cost of that event be greater for average Americans than the cost of a systematic intervention?

Secretary Paulson and Chairman Bernanke assert that analysts both inside the government and out confirm the belief that our markets are frozen by illiquid assets on the balance sheets of large and small financial institutions. There have been too many calls to my office making this point for me to doubt that this is correct.

These illiquid assets are said to be causing financial institutions at all levels to conserve capital. As a result, the normal lending that allows our commercial activities to proceed in an orderly fashion has ground to a halt. The effect is a financial panic on our entire financial system much like a run on the bank and it is having the same destructive effect.

The plan put forward last weekend was designed to address this fundamental key to the current crisis.

We are faced with critical issues for which we have far too little information on which to base our decisions. That makes the decisions extremely difficult, but we cannot leave here for the rest of the year without reaching closure on this matter. We simply must decide.

The first question is whether we believe there is a likely catastrophic market event in the offing if nothing is done? If there is, it could have enormous costs to Americans who have their life savings invested in pension funds and other savings. Main Street businesses might find themselves unable to access their ordinary sources of financial assets to buy materials and pay their employees. I am not worried about the Wall Street bankers who made millions creating this mess, but I feel a great obligation to the millions of Americans who did nothing to create this problem but might be its innocent victims.

If we decide there is such an event, then will a \$700 billion purchase of these assets provide the temporary relief the markets need to right themselves? If we provide this relief, whether it works or not, let everyone be assured this Committee will be exercising its oversight and investigation responsibilities as we go forward to see to it this can never happen again.

My purpose today will be to listen and try to find answers to these questions. The witnesses have been through a lengthy and extensive hearing process this week and in the past few weeks. I appreciate them being here to help us find the answers we need.

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