Prepared Remarks of Ranking Member Spencer Bachus, Full Committee Hearing Entitled Regulatory Restructuring and Reform of the Financial System

October 21, 2008

Mr. Chairman, thank you for holding this hearing on regulatory reform.

The last six months have been a period of extraordinary and fundamental changes in the financial services landscape. The country’s five major investment banks have either disappeared or become commercial banks. Fannie Mae and Freddie Mac – the linchpins of our nation’s housing finance system – have been placed under government conservatorship. Almost overnight, we have experienced a major consolidation in the banking industry, with three institutions now controlling almost one-third of domestic deposits. And just last week, pursuant to authority created by the economic rescue legislation signed into law on October 3rd, Treasury announced plans to invest hundreds of billions of dollars to obtain equity stakes in the nation’s banks.

These events have left many of our constituents confused by the government’s ever-changing strategy for addressing the financial crisis, and angry as they have watched trillions of dollars in retirement and college savings go up in smoke, thanks to reckless behavior on Wall Street and regulatory failures here in Washington they had absolutely nothing to do with. But we — taxpayers and Congress alike — must resist the urge to legislate in anger. Our financial regulatory system is complex. And it is broken. But reforming our regulatory system is too important a task — and the stakes for America’s workers, consumers, and investors are too high — for us to allow our actions to be guided by a thirst for revenge or a desire to score political points.

Those of us on this Committee must ensure that the understandable cries for more stringent regulation do not result in legislation that throttles the financial markets, undermines the competitiveness of U.S. firms, or reduces choices for American consumers. Everyone agrees that the catastrophic events of the past year have demonstrated that our financial regulations need to be re-tooled. But our goal must be sensible changes that do not stifle economic growth or block useful innovations that are the hallmark of the American economy.

Unfortunately, in some quarters, the debate over regulatory reform has already deteriorated into a collection of slogans. We hear repeatedly that “the free market has failed” and that “financial innovation has outstripped regulation.” Some have begun calling for a series of “progressive” reforms that would rival the New Deal in their breadth and scope. We have been told that we need far-reaching and ambitious solutions. What we have not been given is a rigorous analysis that identifies the problems we need to solve or that demonstrates that these solutions are the right ones.

We must acknowledge that there are significant gaps in the regulatory framework. We have seen excessive risk-taking on Wall Street coupled with financial alchemy that permitted financial institutions to mask the risks that they had assumed as well as the effect that those risks have had on the real economy.

But the market has already fixed that problem, and replaced it with another. Now banks are refusing to take any risks whatsoever and refusing to lend to anyone, no matter how safe. There are two lessons to be drawn from the credit crisis. First, our efforts are wasted if we do nothing more than draw up battle plans to fight the last war. Second, we can easily solve one problem, and create another that is just as bad.

Before we can even start thinking about solutions, however, we need to figure out what went wrong, and we need to do so without regard for whose political ox gets gored in the process. Yet while this Congress has found the time for multiple hearings on other aspects of the current market turmoil – including the failure of Lehman Brothers, the government takeover of AIG, and the activities of credit rating agencies and hedge funds – it has not held a single hearing to examine the role of Fannie Mae and Freddie Mac in the meltdown of the subprime mortgage market that is at the heart of this crisis. Indeed, a request by 28 of the 33 Republican Members of this Committee to hold such a hearing at which former executives of Fannie and Freddie would be invited to testify was dismissed out of hand.

Mr. Chairman, if we are truly interested in understanding how we got to this point – and what kinds of regulatory reforms are needed to make sure we do not end up here again – it is inconceivable to me that we would not hold hearings on the collapse of the GSEs, and demand that those who contributed to that collapse testify under oath. I urge you to reconsider your rejection of the Republican request for hearings on this issue.

I yield back the balance of my time.

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