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Statement by

Ben S. Bernanke

Chairman

Board of Governors of the Federal Reserve System

before the

Committee on Banking, Housing, and Urban Affairs

United States Senate

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Chairman Dodd, Senator Shelby, and members of the Committee, I thank you for the opportunity to appear before you today. I would also like to express my gratitude to President Obama for nominating me to a second term as Chairman of the Board of Governors of the Federal Reserve System and for his support for a strong and independent Federal Reserve. Finally, I thank my colleagues throughout the Federal Reserve System for the remarkable resourcefulness, dedication, and stamina they have demonstrated over the past two years under extremely trying conditions. They have never lost sight of the importance of the work of the Federal Reserve for the economic well-being of all Americans.

Over the past two years, our nation, indeed the world, has endured the most severe financial crisis since the Great Depression, a crisis which in turn triggered a sharp contraction in global economic activity. Today, most indicators suggest that financial markets are stabilizing and that the economy is emerging from the recession. Yet our task is far from complete. Far too many Americans are without jobs, and unemployment could remain high for some time even if, as we anticipate, moderate economic growth continues. The Federal Reserve remains committed to its mission to help restore prosperity and to stimulate job creation while preserving price stability. If I am confirmed, I will work to the utmost of my abilities in the pursuit of those objectives.

As severe as the effects of the crisis have been, however, the outcome could have been markedly worse without the strong actions taken by the Congress, the Treasury Department, the Federal Reserve, the Federal Deposit Insurance Corporation, and other authorities both here and abroad. For our part, the Federal Reserve cut interest rates early and aggressively, reducing our target for the federal funds rate to nearly zero. We played a central role in efforts to quell the financial turmoil, for example, through our joint efforts with other agencies and foreign

authorities to avert a collapse of the global banking system last fall; by ensuring financial institutions adequate access to short-term funding when private funding sources dried up; and through our leadership of the comprehensive assessment of large U.S. banks conducted this past spring, an exercise that significantly increased public confidence in the banking system. We also created targeted lending programs that have helped to restart the flow of credit in a number of critical markets, including the commercial paper market and the market for securities backed by loans to households and small businesses. Indeed, we estimate that one of the targeted programs--the Term Asset-Backed Securities Loan Facility--has thus far helped finance 3.3 million loans to households (excluding credit card accounts), more than 100 million credit card accounts, 480,000 loans to small businesses, and 100,000 loans to larger businesses. And our purchases of longer-term securities have provided support to private credit markets and helped to reduce longer-term interest rates, such as mortgage rates. Taken together, the Federal Reserve's actions have contributed substantially to the significant improvement in financial conditions and to what now appear to be the beginnings of a turnaround in both the U.S. and foreign economies.

Having acted promptly and forcefully to confront the financial crisis and its economic consequences, we are also keenly aware that, to ensure longer-term economic stability, we must be prepared to withdraw the extraordinary policy support in a smooth and timely way as markets and the economy recover. We are confident that we have the necessary tools to do so. However, as is always the case, even when the monetary policy tools employed are conventional, determining the appropriate time and pace for the withdrawal of stimulus will require careful analysis and judgment. My colleagues on the Federal Open Market Committee and I are committed to implementing our exit strategy in a manner that both supports job creation and fosters continued price stability.

A financial crisis of the severity we have experienced must prompt financial institutions and regulators alike to undertake unsparing self-assessments of their past performance. At the Federal Reserve, we have been actively engaged in identifying and implementing improvements in our regulation and supervision of financial firms. In the realm of consumer protection, during the past three years, we have comprehensively overhauled regulations aimed at ensuring fair treatment of mortgage borrowers and credit card users, among numerous other initiatives. To promote safety and soundness, we continue to work with other domestic and foreign supervisors to require stronger capital, liquidity, and risk management at banking organizations, while also taking steps to ensure that compensation packages do not provide incentives for excessive risk-taking and an undue focus on short-term results. Drawing on our experience in leading the recent comprehensive assessment of 19 of the largest U.S. banks, we are expanding and improving our cross-firm, or horizontal, reviews of large institutions, which will afford us greater insight into industry practices and possible emerging risks. To complement on-site supervisory reviews, we are also creating an enhanced quantitative surveillance program that will make use of the skills not only of supervisors, but also of economists, specialists in financial markets, and other experts within the Federal Reserve. We are requiring large firms to provide supervisors with more detailed and timely information on risk positions, operating performance, and other key indicators, and we are strengthening consolidated supervision to better capture the firmwide risks faced by complex organizations. In sum, heeding the lessons of the crisis, we are committed to taking a more proactive and comprehensive approach to oversight to ensure that emerging problems are identified early and met with prompt and effective supervisory responses.

We also have renewed and strengthened our longstanding commitment to transparency and accountability. In the making of monetary policy, the Federal Reserve is highly transparent,

providing detailed minutes three weeks after each policy meeting, quarterly economic projections, regular testimonies to the Congress, and much other information. Our financial statements are public and audited by an outside accounting firm, we publish our balance sheet weekly, and we provide extensive information through monthly reports and on our website on all the temporary lending facilities developed during the crisis, including the collateral that we take. Further, our financial activities are subject to review by an independent inspector general. And the Congress, through the Government Accountability Office, can and does audit all parts of operations, except for monetary policy and related areas explicitly exempted by a 1978 provision passed by the Congress. The Congress created that exemption to protect monetary policy from short-term political pressures and thereby to support our ability to effectively pursue our mandated objectives of maximum employment and price stability.

In navigating through the crisis, the Federal Reserve has been greatly aided by the regional structure established by the Congress when it created the Federal Reserve in 1913. The more than 270 business people, bankers, nonprofit executives, academics, and community, agricultural, and labor leaders who serve on the boards of the 12 Reserve Banks and their 24 Branches provide valuable insights into current economic and financial conditions that statistics cannot. Thus, the structure of the Federal Reserve ensures that our policymaking is informed not just by a Washington perspective, or a Wall Street perspective, but also a Main Street perspective.

If confirmed, I look forward to working closely with this Committee and the Congress to achieve fundamental reform of our system of financial regulation and stronger, more effective supervision. It would be a tragedy if, after all the hardships that Americans have endured during the past two years, our nation failed to take the steps necessary to prevent a recurrence of a crisis

of the magnitude we have recently confronted. And, as we move forward, we must take care that the Federal Reserve remains effective and independent, with the capacity to foster financial stability and to support a return to prosperity and economic opportunity in a context of price stability.

Thank you again for the opportunity to appear before you today. I would be happy to respond to your questions.