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

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Opening Statement of Chairman Christopher J. Dodd
"Oversight of the EESA: Examining Financial Institution Use of Funding Under the Capital Purchase Program"

Remarks as Prepared:

Today, the Committee continues its oversight of the implementation of the Emergency Economic Stabilization Act of 2008, known as "EESA."

Three weeks ago, we heard from Administration witnesses about what steps they are taking to implement this important legislation. Today, we hear from four of the largest firms that have received assistance pursuant to this law.

We are also joined by three distinguished witnesses who will share their views on the effectiveness of recent actions by lenders and regulators, and on what additional steps would be appropriate in order to help stabilize and strengthen the economy.

Forty-one days ago, President Bush signed into law the $700 billion EESA bill. Ten days later, on October 13th, the Secretary of the Treasury announced that nine of the largest financial institutions in the country – including the four who are with us today – would receive a total of $125 billion of EESA funds in the form of direct equity investments by the Treasury department.

These investments of taxpayer dollars are not the only taxpayer-backed benefits that have been made available to these and other financial institutions. On the contrary, they amount to just a fraction of the approximately five trillion taxpayer dollars that have been put at risk in recent weeks and months for the benefit of our nation's financial institutions.

Those five trillion dollars have been committed in several forms, including: the guarantee of all non-interest bearing deposit accounts at federally insured banks and thrifts; the increase in deposit insurance for interest-bearing accounts to $250,000 per account; the guarantee of senior unsecured bank debt for a period of three years, which financial institutions may opt out of; the decision to place Fannie Mae and Freddie Mac – whose mortgage financing is used by virtually every home lender in the country – into conservatorship and provide them with a $200 billion federal backstop; the guarantee of hundreds of billions in money market funds; the decision by the Treasury to reverse over two decades of tax law to allow companies, including banks, to write off on their taxes the losses of companies they acquire; the guarantee of major segments of the commercial paper market; and lastly the creation by the Federal Reserve of numerous facilities and special purpose vehicles for bank holding companies, primary dealers, and commercial firms so that they can find sources of reliable, affordable financing for their business

activities. The Fed alone has committed up to one trillion in tax dollars so far to the recovery effort.

By any measure, these actions amount to an extraordinary commitment of public resources. On some level, all of us – including members of the public – accept that this extraordinary commitment befits the extraordinary financial crisis now facing our nation. It is an unprecedented sum for these unprecedented economic times.

It is no secret that some who have received funds under EESA – including some of those institutions represented here this morning – did not ask for funding. Nevertheless, they accepted it.

Indeed, given the irrationality of the markets that seemed to target and take down one renowned firm after another, these public investments serve as a seal of approval. That explains why so many other firms are quickly lining up for their capital injections.

Given that fact, it is reasonable for us to ask: now that they have the money, what are they going to do with it? What is their responsibility to the citizens of our country who are making enormous sacrifices to support the financial sector and the economy as a whole?

The acceptance of public funding carries with it a public obligation. One cannot benefit from taxpayer support in all its many forms and assume that one has no duty to serve that same taxpayer. The people of this great nation are generous and understanding. But they are entitled to expect that those who benefit from their sacrifices will act with appropriate restraint and purpose.

In my view, lenders who enjoy benefits conferred by taxpayers owe those same taxpayers consideration that includes the following:

First, that they preserve homeownership. The foreclosure crisis is the root cause of the larger financial crisis. And the root of the foreclosure crisis is the bad lending practices in which many well-known lending institutions engaged. Until we solve the foreclosure problem, we will not have any hope of solving larger economic problems. I appreciate the efforts that numerous lenders have started to make in this area – including some who are here today. But more – much more – must be done on a lender-by-lender as well as on an industry-wide basis to address the foreclosure crisis. Even lenders who have modified a relatively large number of loans are doing so in a manner whereby many of these loans default or re-default. That does not seem to be good for anyone – borrowers or lenders.

Now is the time to utilize HOPE for Homeowners and other initiatives designed to truly preserve homeownership and stabilize the economy.

Second, lenders who receive public funds should use those funds to lend. Many are failing to do that. CEO's have been directly quoted saying they intend to use public dollars to acquire other financial firms and widen their capital cushion.

Let me say as clearly as I can: hoarding capital and acquiring healthy banks are not – I repeat, are not – reasons why Congress authorized $700 billion in emergency funding. The core purpose of this law – and the purpose of virtually every other action taken during this crisis – is to get lenders back into the business of lending. Credit is the lifeblood of the economy. It's absolutely essential to businesses and consumers. Lenders have a duty to use these funds to make affordable loans to credit-worthy borrowers on reasonable terms. If they do not, then in my view they are acting outside the clear intent of the statute and should reform their actions immediately.

Third and lastly, lenders who are eligible for EESA funding and for other items on the smorgasbord of federal assistance to financial firms would do well to examine their executive compensation policies. EESA sets forth clear, if modest, restrictions on executive compensation for companies that receive financial assistance under the act. I would suggest that these restrictions serve as a beginning, not an end, to the restraint firms should show in compensating their most highly paid employees.

Our nation is in a crisis. We are at war in two distant countries. Our financial markets remain uncomfortably close to the precipice of collapse. Working Americans have been forced to cut back in their personal lives – even as they have been asked to shoulder the enormous burden of propping up the financial sector.

At this time of austerity and apprehension, it would be regrettable if some carried on as if they do not owe a duty of restraint and modesty to those countless Americans whose sacrifice helps make your viability and prosperity possible at this moment of national economic peril.

For those tempted to conduct business as usual with respect to their compensation policies, I would only ask:

Where would your company and your industry be today without taxpayer-backed deposit insurance? Without taxpayer-backed guarantees of your bank's debt? Without taxpayer-backed special lending facilities at the Federal Reserve? And without all of the other special benefits that your industry is receiving – courtesy of the American taxpayer?

If you believe that you would be no worse off than you are today, then I invite you to return to the Treasury the billions of dollars in taxpayer investments, guarantees, and discounts that you currently receive, and I wish you well as you try to make it on your own.

Until that happens, I think I speak for many members of the Committee and the Senate in saying that we want to see more progress from our friends in the financial sector – more progress in foreclosure mitigation, in affordable lending, and in curbing excessive compensation. And if that progress is not forthcoming, we are prepared to legislate – now if possible, but next year if necessary.