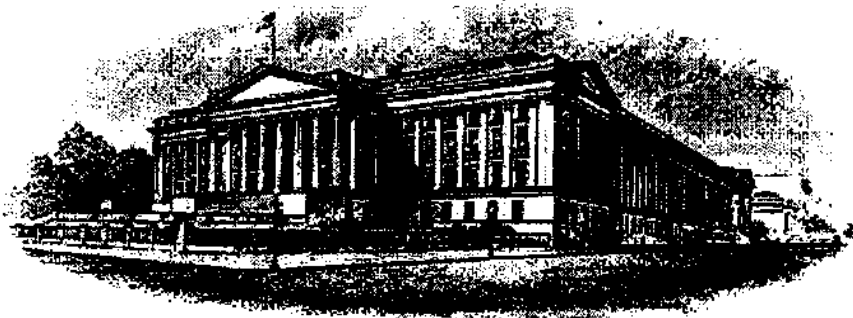




U.S. TREASURY DEPARTMENT OFFICE OF PUBLIC AFFAIRS

EMBARGOED UNTIL, 10 a.m. (EDT), September 23, 2008
CONTACT Brookly McLaughlin, (202) 622-2920

TESTIMONY BY SECRETARY HENRY M. PAULSON, JR. BEFORE THE SENATE BANKING COMMITTEE ON TURMOIL IN U.S. CREDIT MARKETS: RECENT ACTIONS REGARDING GOVERNMENT SPONSORED ENTITIES, INVESTMENT BANKS AND OTHER FINANCIAL INSTITUTIONS

Washington, DC—Chairman Dodd, Senator Shelby, members of the committee, thank you for the opportunity to appear before you today. I appreciate that this is a difficult period for the American people. I also appreciate that Congressional leaders and the Administration are working closely together so that we can help the American people by quickly enacting a program to stabilize our financial system.

We must do so in order to avoid a continuing series of financial institution failures and frozen credit markets that threaten American families' financial well-being, the viability of businesses both small and large, and the very health of our economy.

The events leading us here began many years ago, starting with bad lending practices by banks and financial institutions, and by borrowers taking out mortgages they couldn't afford. We've seen the results on homeowners — higher foreclosure rates affecting individuals and neighborhoods. And now we are seeing the impact on financial institutions. These bad loans have created a chain reaction and last week our credit markets froze — even some Main Street non-financial companies had trouble financing their normal business operations. If that situation were to persist, it would threaten all parts of our economy.

As we've worked through this period of market turmoil, we have acted on a case-by-case basis — addressing problems at Fannie Mae and Freddie Mac, working with market participants to prepare for the failure of Lehman Brothers, and lending to AIG so it can sell some of its assets in an orderly manner. We have also taken a number of powerful tactical steps to increase confidence in the system, including a temporary guaranty program for the U.S. money market mutual fund industry. These steps have been necessary but not sufficient.

More is needed. We saw market turmoil reach a new level last week, and spill over into the rest of the economy. We must now take further, decisive action to fundamentally and comprehensively address the root cause of this turmoil.

And that root cause is the housing correction which has resulted in illiquid mortgage-related assets that are choking off the flow of credit which is so vitally important to our economy. We must address this underlying problem, and restore confidence in our financial markets and financial institutions so they can perform their mission of supporting future prosperity and growth.

We have proposed a program to remove troubled assets from the system. This troubled asset relief program has to be properly designed for immediate implementation and be sufficiently large to have maximum impact and restore market confidence. It must also protect the taxpayer to the maximum extent possible, and include provisions that ensure transparency and oversight while also ensuring the program can be implemented quickly and run effectively.

The market turmoil we are experiencing today poses great risk to US taxpayers. When the financial system doesn't work as it should, Americans' personal savings, and the ability of consumers and businesses to finance spending, investment and job creation are threatened.

The ultimate taxpayer protection will be the market stability provided as we remove the troubled assets from our financial system. I am convinced that this bold approach will cost American families far less than the alternative — a continuing series of financial institution failures and frozen credit markets unable to fund everyday needs and economic expansion.

Over these past days, it has become clear that there is bipartisan consensus for an urgent legislative solution. We need to build upon this spirit to enact this bill quickly and cleanly, and avoid slowing it down with other provisions that are unrelated or don't have broad support. This troubled asset purchase program on its own is the single most effective thing we can do to help homeowners, the American people and stimulate our economy.

Earlier this year, Congress and the Administration came together quickly and effectively to enact a stimulus package that has helped hard-working Americans and boosted our economy. We acted cooperatively and faster than anyone thought possible. Today we face a much more challenging situation that requires bipartisan discipline and urgency.

When we get through this difficult period, which we will, our next task must be to address the problems in our financial system through a reform program that fixes our outdated financial regulatory structure, and provides strong measures to address other flaws and excesses. I have already put forward my recommendations on this subject. Many of you also have strong views, based on your expertise. We must have that critical debate, but we must get through this period first.

Right now, all of us are focused on the immediate need to stabilize our financial system, and I believe we share the conviction that this is in the best interest of all Americans.

Thank you.