



**JOINT ECONOMIC COMMITTEE**  
SENATOR CHARLES E. SCHUMER, CHAIRMAN  
REPRESENTATIVE CAROLYN B. MALONEY, VICE CHAIR



**Statement of Carolyn Maloney, Vice Chair**  
**Joint Economic Committee Hearing**  
**April 2, 2008**

Good morning. I would like to thank Chairman Schumer for holding this hearing to examine the economic outlook. I want to welcome Chairman Bernanke and thank him for testifying here today.

Yesterday, Speaker Pelosi called on the President to join in a bipartisan economic summit to focus on the kitchen table concerns of American families. At this moment in history, we need to come together to solve our nation's serious economic challenges. The Bush Administration's blueprint for regulatory reform is a distraction from the problems at hand. Even if the plan were put in place today, it would make no difference in the current crisis.

Our regulatory system is in serious need of renovation because financial innovation has surpassed our ability to protect consumers and hold institutions accountable. But we should not rush to revamp our regulatory system until we are sure we understand the problems. As former Treasury Secretary Lawrence Summers recently observed, "It's probably a bad idea to spend too much time debating the organization of the fire department while the fire is still burning and no independent investigation of the cause of the fire has yet been completed."

We should instead move quickly to keep families in their homes and blunt the devastating effects of the weakening economy. The decline in home prices is causing banks to readjust their balance sheets and to build up capital, which is at the core of the liquidity crisis. Economists warn that containing financial volatility will be difficult until housing prices stop falling, which is why Congress is working on solutions to keep people in their homes and avoid a deep downturn.

Rep. Barney Frank and Sen. Chris Dodd have proposed a \$300 billion loan guarantee program through the Federal Housing Administration, which would allow the nearly nine million homeowners with negative-equity to refinance their mortgages at reasonable rates. And for homes already in foreclosure, another measure would make \$10 billion available in grants and loans to states to buy foreclosed properties and allow families to either buy or rent them.

The crisis in the housing market has brought to light the inability of our most sophisticated and respected institutions to measure their exposure to opaque assets, and more importantly to manage the risks associated with them. To underscore this challenge, my respected constituent former Treasury Secretary Robert Rubin recently said that he hadn't even heard of "liquidity puts" – an obscure kind of financial contract – until they started causing big problems for Citigroup. I hope we will hear from you, Chairman Bernanke, about what we should do to increase transparency for complex investment products to assure smoothly functioning markets. In recent weeks we've heard calls for the Fed to oversee risk across the broad financial spectrum and I know we are all anxious to hear your thoughts on this.

In order to forestall a meltdown of the financial sector, the Fed has recently employed some creative, unprecedented and controversial steps to ease the credit crunch which have come to resemble the spontaneous improvisation of jazz. I hope that Chairman Bernanke's respected academic research prior to joining the Fed will help us to avoid repeating the mistakes of the Great Depression. Clearly, we are in uncharted territory.

The Federal Reserve has recently come under fire for making a \$29 billion line of credit available to JP Morgan Chase to acquire investment giant Bear Stearns. This action to head off a sudden collapse of one of the nation's largest investment banks, however, very likely prevented widespread financial panic and a potential domino effect among other financial institutions.

Wall Street has been helped. Now it is time to help Main Street.

We should take this moment in history to build on the stimulus plan by considering additional measures to strengthen the economy. It is most likely too late to avoid the second economic downturn of President Bush's Administration, but it is not too late for the Administration to work with Congress to prevent families from losing their homes, put people back to work, and restore confidence in our economy.

Mr. Chairman, thank you for holding this hearing and I look forward to gaining some insights into conditions in the financial market and the economic outlook.

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