

Statement of Charles E. Schumer
– As Prepared for Delivery –
Chairman, Congressional Joint Economic Committee
Hearing on the Economic Outlook
September 24, 2008

To begin, I'd like to welcome you this hearing Mr. Chairman. And I'd like to thank you for appearing before this and the two other committees you are testifying in front of. I know how grueling this can be. But like it or not, it is important part of the process. If the Administration plan cannot withstand scrutiny, we cannot make our case to the American taxpayers we represent.

I think these hearings – beginning in the Senate Banking committee yesterday under the leadership of Chairman Dodd and continuing in the House Financial Services Committee this afternoon under Chairman Frank, have been important. Over the last twenty-four hours, I've seen signs of greater cooperation from my colleagues in Congress, who, despite many of their well-founded reservations, recognize the magnitude of the problems we face and the importance of getting something done.

When you were last before this committee, in April, the crisis we were facing was the collapse of Bear Stearns, and I can say that most of us thought we had just witnessed an event that we were likely never to see again in our lifetimes. And yet, here we are, only six months later, and we are discussing a crisis many orders of magnitude greater.

Mr. Chairman, I believe you have been eloquent and impassioned in your warnings of the dangers we face, and that we must try to do all we can to resolve the threat to our financial system. And I will reiterate what I said yesterday, I do believe we must act and we must act soon.

But let us be clear – Americans are furious. I am sure that every single one of my colleagues has heard what I have heard from my constituents –amazement, astonishment and intense anger. And they are right to be astonished and very angry. Over the last eight years, we were told that markets knew best, that financial alchemy had reduced risk to an afterthought, and that we were entering a new world of global growth and prosperity. Instead, what we have learned is that we now have to pay for the greed and recklessness of those who should have known far better.

Unfortunately that truth does not solve the crisis that confronts us. While Wall Street caused these problems, if we do nothing, Main Street will also pay a severe price. Pension

funds, money market mutual funds, and 401(k) plans will be negatively impacted. Credit is already tightening, which impacts households as well as businesses large and small throughout this country. The lockdown in lending has widespread consequences. I've heard from car manufacturers that it is virtually impossible to get an auto loan right now unless you have a very high credit score. This year alone they are likely sell six million fewer cars than they otherwise would. So even though the workers in Buffalo, Detroit and St. Louis are blameless, they will suffer. It's not fair, it's not right, but that's the world we live in today.

That is the reality we face, and we in Congress recognize it. I want to assure the markets once again – and I think I speak for all of us – that we will not be dilatory and we will not add extraneous amendments. We will not Christmas tree this bill. And we will work in a bipartisan way to act, and act soon. In the last day it has become clear to me, that, with the exception of a few outliers in either party, there is a clear recognition among members of both parties that we must act and act soon. And it has been good to hear from both Senators Obama and McCain that they concur we must act, though like us, they believe changes must be made the Administration plan.

Still, as I said yesterday as well, we must beware that in taking actions, we do not choose a bad solution. The markets want action. We understand that. But if we act so quickly that we create an ineffective solution, without adequate safeguards, then we risk the plan failing, which would be an even worse outcome for the markets, for the economy, and for our country.

Even on Wall Street, \$700 billion is a lot of money, and none of the thousands of money managers would invest that sum without appropriate due diligence. These hearings, and the discussions that are happening as we speak, are our Congressional due diligence, and we take that responsibility seriously and will make intelligent and relevant improvements to the Administration's plan. We owe nothing less than that to the taxpayers who have put us in office to safeguard their economic well-being. It is a sacred trust, and I can say that it is a responsibility that all my colleagues, both Democrats and Republicans, whatever philosophical differences, hold very dear.

As I have said, I believe there are three essential components to that must be part of this plan – T H O – taxpayers, homeowners, and oversight. There can be no question - and this is non-negotiable – that we must put taxpayers first. They must come ahead of bondholders, shareholders and executives and we need to add to the Administration's legislation those types of protections. I think we must seriously consider putting this program in place in tranches, or installments – so that we do not limit the Secretary's ability to act as necessary, but are able to evaluate the effectiveness of these expenditures over time. If the program is working, the

Congress will certainly ratify continuing expenditures by the Treasury. But if it is not working, then we will need to review it before we once again find ourselves on the brink. I look forward to hearing your thoughts on that today, Mr. Chairman.

Another idea I've proposed is insurance fund modeled on the FDIC and paid for by the financial industry that can defray some of the long-term costs of the Administration plan must also be part of this legislation. It clearly cannot cover the entire cost. But it seems only fair that the industry that will receive the vast benefit of this taxpayer-funded program pay for some share of it themselves. Both Secretary Paulson and you seemed positively disposed towards that idea yesterday, and again, I look forward to hearing further from you today on this as well.

I remain puzzled by the resistance you and Secretary Paulson have offered to proposals that Senator Jack Reed and many of my colleagues have made about the need for equity being part of the process we are discussing. My constituents ask me about it, as do many of the business people and many of your fellow economists who I've spoken with about this. It seems only fair that we reward taxpayers if, as we all hope, this plan succeeds.

We must also do something to help homeowners. Chairman Bernanke, you yourself have said repeatedly until we find a floor in the housing markets—and foreclosures are directly related to the housing markets—we will not solve this problem. And that affects not just those who made bad mortgages, not just those who will lose their homes through no fault of their own, but every homeowner. The number of foreclosures and the price of the average American's home are intrinsically related to one another and cannot be separated. As we've seen, the complications of securitization – where mortgages are placed into pools and then broken up into a large number of securities, has created an enormous problem. Unlike in the old days, homeowners can no longer go the local bank, where they got their mortgage, to try to negotiate terms beneficial for both sides. Instead, since their mortgage has been sold into a pool with others, they find themselves trapped by servicing agreements they were never party to in the first place. And that's to say nothing of the complications presented by second lien holders, who can often hold entire pools of mortgages hostage because they have nothing to lose by not co-operating. I remain convinced that judicial loan modifications, which would allow judges leeway in helping homeowners facing foreclosure, are an essential step that we must consider to resolving these problems, and the housing crisis.

Finally – this is the last of what I call the three THO principles - there must greater oversight as part of this plan. This Administration is asking simply for trust. However much we may like Secretary Paulson or you, Mr. Chairman, no sane person would put 700 billion dollars in your hands on trust alone. I cannot in good faith tell my constituents that 'it's fine, we know they'll do the right thing.' Strict oversight is a sine qua non. And when we return next year, we



must develop a regulatory system that fits today's financial system. While we cannot do that this week, it has become crystal clear that our system of regulation is broken and must be repaired, if not entirely replaced.

To close, I would like to add a few words about something that I worry has gotten lost in our focus on this crisis. As I have said, I do believe we will act, and I do believe we will fix the financial crisis we face. But that will not in and of itself fix many of the other problems that continue to bedevil American families. The economy of the past eight years has hammered the American middle class. Their incomes have declined, their healthcare coverage has weakened, the price of their gas and food have skyrocketed, the value of their homes has plummeted, and now many of them find their jobs threatened. The plan the Administration has put forward, with certain modifications, will, I hope, resolve this current mess, but many other obstacles remain ahead of us. It is not enough to maintain the status quo. We must find a way to once again make the American economy the engine of prosperity it once was for all Americans, and not a casino where we let some earn extreme rewards by taking excessive risks while the rest of us get stuck with the bill.

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