

**Statement of Carolyn Maloney, Chair
Joint Economic Committee Hearing
April 21, 2009
(As prepared for delivery)**

Good morning. I want to welcome our extraordinary panel of witnesses and thank you all in advance for your testimony today.

This hearing is timely because Congress expects to take up legislation being prepared by the Administration that would expand the federal government's ability to unwind large financial institutions.

The current financial crisis has made clear that we need additional tools to handle financial institutions that are "too big to fail."

The disorderly failure of large financial institutions can pose a significant threat to the stability of the financial system, both in the United States and globally.

The panic after Lehman Brothers declared bankruptcy last September is evidence enough that, under our present regulatory structure, allowing large financial firms to fail can seriously damage our economy.

Another failure could have created even worse economic consequences, with even deeper effects on employment, incomes, and growth.

On the other hand, unconditional support for large failing firms can be just as dangerous. Implicit guarantees give firms incentives to take bigger risks. Allowing firms to escape the consequences of bad business decisions could prompt even riskier behavior.

Our financial regulators presently lack the means to steer between these two unacceptable alternatives. Chairman Bernanke and Treasury Secretary Geithner recently testified before the House Financial Services Committee that without new legislation, they lack the authority to conduct an orderly unwinding of large financial institutions such as AIG.

The FDIC has mechanisms in place to allow resolution of failed depository institutions. For the other subsidiaries of bank holding companies, and for investment banks, insurance companies and other large financial firms, the only option seems to be bankruptcy.

Fixing our financial system is of the utmost importance. We are therefore fortunate to have with us this morning three outstanding experts as we discuss the topic of restoring confidence in our financial system while minimizing both the cost to taxpayers and the incentives for institutions to take excessive risks in the future.

I am confident that we in Congress can work with the administration to solve this crisis and give regulators better options and tools to prevent as well as cope with future financial crises.

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