U.S. SENATE BANKING COMMITTEE

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Statement of Senator Chris Dodd
"Turmoil in U.S. Credit Markets: Examining the Recent Actions of Federal Financial Regulators"

Remarks as Prepared:

Today, this Committee will carefully consider recent actions taken by our federal financial regulators in response to the ongoing turmoil in our markets and our economy. Much of our focus today will center on a period of 96 hours—mostly over the weekend of March 15th and 16th. During this momentous 4-day period, the Federal Reserve, the Federal Reserve Bank of New York and the Treasury Department took dramatic and unprecedented action to stabilize our markets, to infuse them with liquidity and to prevent additional financial firms from being swept under the riptide of panic that threatened to have taken hold of our markets.

Among those actions was the decision by these entities to support the acquisition of Bear Stearns by JPMorgan Chase. As part of the acquisition, the Federal Reserve Bank of New York, with the support and approval of the Federal Reserve Board of Governors and the Treasury Department, committed $30 billion in taxpayer money to help facilitate the sale of the distressed company to JPMorgan Chase. And as part of its broader efforts to provide stability to the markets, the Fed's Board of Governors made a historic decision to allow primary dealers, firms which include investment banks, to access billions of dollars of liquidity, on a daily basis.

The stunning fall of Bear Stearns, a Wall Street giant and America's fifth largest investment bank, was matched only by the swift and sweeping response to its collapse put together by the New York Fed and the Federal Reserve Board of Governors, which, with the support of Treasury, exercised powers in some instances that had not been used since the Great Depression and in others were unprecedented in nature. There can be no doubt that these actions, taken in order to calm financial markets that appeared to be teetering on the brink of panic, have set off a firestorm of debate. They also raise a number of important questions that warrant our consideration.

- Was this a justified rescue to prevent a systemic collapse of financial markets, or a $30 billion taxpayer bailout for a Wall Street firm while people on Main Street struggle to pay their mortgages?

- What was the role of the Federal Reserve, the Treasury, the New York Fed and the SEC in helping to facilitate, arrange and set the terms, including the price, of the original and amended merger agreement between JPMorgan Chase and Bear Stearns?

- While hindsight is invariably 20-20, it bears asking if Bear Stearns would have survived if the Fed had opened the discount window to investment banks earlier? And what led to the sudden reversal on a policy that the Vice Chairman of the Fed had openly rejected in response to a question that I asked him before this very Committee only two weeks earlier?

- What was the role of the SEC, the primary regulator of Bear Stearns, during those critical 96 hours and in the weeks of market turmoil leading up to that weekend of merger negotiations? And why were they seemingly unaware of the potential for market rumors to cause investors to suddenly stop doing business with Bear Stearns until it was too late?

These questions, the series of events leading up to the Bear rescue, the response by financial regulators and the implications of those actions will be discussed and debated for years to come. It would not be an overstatement to suggest that what occurred during those fateful 96 hours may have fundamentally altered our financial market landscape and our system of financial market regulation.

Given these considerations, and the highly unusual and unprecedented actions taken by the Federal Reserve Board of Governors, the Federal Reserve Bank of New York and the support from the Department of Treasury, it is appropriate – indeed, essential – that the Banking Committee exercise its oversight and investigatory functions to examine the authority, economic justification, and public policy implications of these extraordinary recent actions by our nation's federal financial regulators.

As such, the Committee has convened today's hearing – the first Congressional analysis with all relevant parties of this issue – to hear the testimony of the public and private principals involved in this unprecedented series of events and to provide Committee members, and the American taxpayer, with a full, public and thoughtful airing of these issues and their implications.

With $30 billion on the line, the public deserves nothing less.

I want to thank all of the witnesses for coming before the Committee this morning, we appreciate your taking the time and look forward to your testimony.

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